

# 21C

THE COALITION FOR 21<sup>ST</sup> CENTURY PATENT REFORM

Protecting Innovation to Enhance American Competitiveness

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## **Summary of 21C's Positions on the Stay of Discovery and Venue Provisions of the Innovation Act, H.R. 9 (as reported June 11, 2015)**

### **1. STAY OF DISCOVERY**

#### **Issue:**

Various legislative proposals have been advanced to stay discovery at the outset of patent cases, to reduce the costs and burden of litigation while the court decides preliminary issues that may narrow or eliminate the need for subsequent discovery. Previous legislative proposals, including the Innovation Act as introduced, would have stayed discovery in patent cases pending the district court's construction of the patent claims at issue. 21C expressed deep concerns with this approach, because patent claim construction must take place in nearly every patent case, and it often involves lengthy and complicated briefing, hearings and orders that can take considerable time to complete. Deferring discovery during this process risks undue delay, adding substantially to the total pendency of nearly every patent infringement case, even cases between competitors where prompt resolution of the infringement allegations on the merits may be essential to protecting the patent owner's investments in R&D, products and businesses built upon the patented invention.

21C also expressed concerns that, although the stay of discovery provision included a competitive harm exception, which was intended to ensure that such stays would not harm operating company patent owners seeking to stop infringement of their rights by unscrupulous competitors, the exception was unduly narrow and burdensome to patent owners by requiring that they file a motion for a preliminary injunction before discovery could proceed. 21C argued that discovery should proceed upon a showing that the case seeks to prevent competitive harm, without this extra expense and burden.

#### **H.R. 9 (Managers' Amendment):**

The Managers' Amendment addressed some of 21C's concerns with the stay of discovery provision by limiting the stay to the time required to resolve certain preliminary motions filed before the first responsive pleading – specifically, motions to sever a

claim, drop a party, or transfer or dismiss due to improper venue. This approach would have provided meaningful relief from expensive discovery to those defendants who believe that the case should be litigated in a different forum or that they have been improperly joined with other defendants, while alleviating the risk of prolonged delays in nearly every patent case, which is the risk if discovery is stayed during lengthy claim construction proceedings. The Managers' Amendment did not, however, address 21C's concerns with the unduly-narrow competitive harm exception.

**H.R. 9 (as reported June 11, 2015):**

Unfortunately, during the Judiciary Committee markup, several amendments were made to the stay of discovery provision that make it extremely unfair and burdensome to all patent owners seeking to enforce their rights and extremely disruptive to the patent litigation process. Specifically, the provision was amended to:

- Remove the requirement that motions staying discovery must be brought before the first responsive pleading and replacing it with language allowing such motions to be brought up to 90 days after service of the complaint. This completely changes the timing of patent cases and is a recipe for delay and gamesmanship – an opportunistic defendant could bring a motion that halts discovery three months into a case.
- Add all Rule 12(b) motions to dismiss to the types of motions triggering a stay. This amendment will create the risk that needless motions to dismiss will be brought for tactical purposes. Every defendant will be incented to bring a motion to dismiss in every case, not because the complaint does not put the defendant on fair notice of the claims being asserted, but to avoid the onset of discovery. This risk of opportunistic gamesmanship by defendants is exacerbated in H.R. 9, as reported, for two main reasons: (1) there is no safeguard allowing initial disclosures to proceed while more general discovery is stayed, to ensure that cases do not come to a complete standstill while motions to dismiss are pending; and (2) the bill's heightened pleadings requirement of "detailed specificity" is vague and burdensome and thus will provide the basis for motions to dismiss brought for tactical purposes, not because of any actual failure of the complaint to put the defendant on fair notice of the claims being brought.
- Further limit the competitive harm exception in a way that renders it effectively meaningless for legitimate patent owners seeking prompt relief to stop infringement of their rights. As amended, the competitive harm exception applies only when a court actually grants a preliminary injunction, which typically happens only *after* preliminary discovery. Indeed, as amended, the stay of discovery now expressly allows defendants to stay even the discovery needed to

rule on a preliminary injunction motion – or any other substantive motion -- by filing a motion to dismiss or transfer the case, thereby giving the defendant “veto” power over a previously-filed motion for extraordinary relief or to the preserve the status quo in any case brought by any patent owner seeking to stop infringement by unscrupulous competitors.

For these reasons, 21C strongly opposes the stay of discovery provision as amended in H.R. 9 as reported.

## **2. VENUE**

### **Issue:**

Tracing back to H.R. 1908 in the 110<sup>th</sup> Congress, there were various legislative proposals to preclude a party from manufacturing venue by assignment, incorporation, joinder, or otherwise primarily to invoke the venue of a specific district court perceived as favorable. Following the decision in *In re Volkswagen of America, Inc.*, 506 F.3d 376 (5th Cir. 2007), and the difficulty of reaching a consensus among stakeholders, efforts to restrict venue in patent cases faded away.

### **H.R. 9 (Managers’ Amendment):**

A new proposal was introduced in the Managers’ Amendment that would limit where civil actions for patent infringement could be brought to only those judicial districts where: (1) the defendant has its principal place of business or is incorporated; (2) the defendant has committed an act of infringement and has a regular and established physical facility; (3) the defendant has agreed or consented to be sued; (4) the invention claimed in a patent in suit was conceived or actually reduced to practice; (5) significant R&D of the claimed invention occurred at a regular and established physical facility; (6) a party has a regular and established physical facility, that it controls and operates, and where it has engaged in manufacturing the patented product or practicing the patented process; or (7) for foreign defendants who do not meet the other requirements, in any district.

The Managers’ Amendment also contained a new section directed to mandamus relief, deeming a clearly and indisputedly erroneous denial of a motion to transfer venue as causing irremediable interim harm. This provision was designed to make it easier for defendants to obtain a writ of mandamus for interlocutory appeals challenging district court decisions not to dismiss or transfer cases on grounds of improper or inconvenient venue.

Although 21C appreciated the effort in the Manager’s Amendment to preserve the ability of some patent owners to file suit in their home districts, we were concerned whether

the language was sufficiently balanced to ensure that American manufacturers can bring suit in their home districts to protect their business investments against infringement and disappointed that it was added without sufficient opportunity for consideration and discussion by 21C, other stakeholders and the public. We also expressed concern that the mandamus provision will further burden the Federal Circuit, which will be challenged as it is to keep pace with the expected high volume of appeals from IPR and PGR decisions, by increasing the volume of interlocutory appeals. Existing mandamus law is adequate to ensure relief in appropriate cases from erroneous denials of venue motions, as evidenced by the numerous cases in which the Federal Circuit has issued writs of mandamus to do exactly that.

**H.R. 9 (as reported June 11, 2015):**

Unfortunately, during the Judiciary Committee markup, numerous amendments were made to the venue provision that heightened 21C's concerns and go well beyond what is needed to ensure that patent cases are not brought in perceived "pro-plaintiff" judicial districts that lack any meaningful connect to the parties and claims involved in the action. As amended, the venue provision will have a number of negative consequences for all patent owners and will threaten the ability of all patent owners to seek relief from infringement in their home districts, even if that is where they have made enormous R&D and manufacturing investments to protect from infringement, as is often the case for American manufacturers who must rely on their patent rights to protect those investments from infringement. Rather than allowing such manufacturers and patent owners to seek to protect their investments against infringement by suing in their home district, the amended venue provision may force them to bring suit in the infringer's home court or in far-flung districts where they happen to have R&D or manufacturing facilities, even when their headquarters and the bulk of their activities, investments and the harm from the infringement are located elsewhere – typically, the district where their headquarters is located.

For example, under the amended venue provision, an American manufacturer that invented, commercialized, manufactures, markets and sells a patented product, and that manages all these investments and activities from its headquarters location, could not bring suit in the judicial district where its headquarters is located if it happened to conduct the initial R&D that led to the application for the patent in suit at one of its laboratory locations in a different district from its headquarters and if it happens to make the patented product at a manufacturing plant in a different district from its headquarters. This is true even if the defendant is selling the infringing product in the patent owner's home district and even if the patent owner's witnesses, documents and other evidence is located in that district.

This imbalance goes well beyond what is needed to prevent venue “gamesmanship” by some patent owners and is unfair to the majority of patent owners who bring suit to protect from infringement their investments in R&D, products and businesses built upon the patented invention. For these reasons, 21C strongly opposes the venue provision as amended in H.R. 9 as reported.

The Coalition for 21st Century Patent Reform has more than 40 members from 18 diverse industry sectors and includes many of the nation’s leading manufacturers and researchers. The coalition’s steering committee includes 3M, Bristol-Myers Squibb, Caterpillar, ExxonMobil, General Electric, Procter & Gamble, Johnson & Johnson, and Eli Lilly. For more information, visit <http://www.patentmatter.com>.