Pharmaceutical Companies Making “Sham Deals” to Shield Invalid Patents from PTAB Review

Yesterday, I attended a hearing held by the House Judiciary Committee Subcommittee on Courts, Intellectual Property and The Internet on "Sovereign Immunity and the Intellectual Property System." The hearing was very well attended, sixteen Congressmen made an appearance and half of those asked questions. With almost no exceptions, the Committee Members expressed outrage at efforts by pharmaceutical companies to engage in "schemes" and "sham deals" with Native American tribes to "rent the sovereign immunity" of those tribes to avoid a lawful AIA proceeding to invalidate what they know to be improperly issued patents. Committee Chairman Goodlatte argued that Tribal sovereign immunity was never intended to serve the interests of private companies unrelated to the tribes. One Congressman summed up the concerns of the rest complaining that name brand pharmaceutical companies are constantly scheming to keep prescription drugs at an artificially high price and that "the pharmaceutical industry is taking a big hit in public perception to the point it is forcing Congress to investigate this and look for solutions" because of yet another abuse of the patent system by them, causing the average citizen to say "this is what is wrong with the system, this is what is wrong in Washington." To be fair, at least one pharmaceutical company, Eli Lilly, has denounced this tactic.

Many Congressman noted that Judge Bryson, who they regarded a veteran of the patent system and an esteemed Federal Circuit Judge, while sitting by designation as the district court judge in the case had ordered Allergan to answer "whether the assignment of the patents to the Tribe should be disregarded as a sham" and describing it as a "ploy" had expressed "serious concerns about the legitimacy of the tactic that Allergan and the Tribe have employed." In response to a question from Rep. Marino on why, out of 263 patents that had been upheld in district court, the PTAB reached a different result as to 200 of those patents and invalidated at least one claim, Phil Johnson, formerly of Johnson & Johnson, argued that the PTAB uses different rules than district court that make it much easier to invalidate the patent, like the broadest reasonable claim interpretation. William Jay of Goodwin Procter argued that PTAB judges are, like examiners, in a better position to invalidate claims than generalist judges or lay juries and that the standards and safeguards must understandably be higher in district courts than when proceedings before the experts at the PTO.

William Jay testified that Allergan under took this scheme because it saw that its patent on its valuable drug was about to expire, filed follow-on applications in an attempt to improperly extend the patent term to that invention, received patents on inventions that should have gone into the public domain, then sought to shield these improperly issued patents from AIA review through assignments to the Saint Regis Mohawk Tribe. He explained that this gamesmanship of the patent system allowed Allergan to more than double the price of Restsis over the last ten years. But he distinguished the need to pierce the immunity of tribes from those of state universities, arguing that while the tribes are acquiring patents through assignments and not themselves contributing to innovation, the state universities are unquestionably places of true innovation and should be left alone. He suggested that one fix might be to require that non-state patentees to agree to a waiver of sovereign immunity as a condition to being granted a patent.

Professor Karl Manheim of Loyola Law School argued that it would be difficult for Congress to legislate away state university sovereign immunity, given the Supreme Court’s holding in Florida Prepaid v. College Savings Bank, 527 U.S. 627 (1999), that Congress could not abrogate State sovereign immunity granted states under the Eleventh Amendment. Because Native American tribe sovereign immunity is a common law doctrine, however, he argued that
there would appear to be no Constitutional basis for challenging a decision by Congress to abrogate that immunity in patent cases.

Phil Johnson, the self-proclaimed only registered patent attorney among the witnesses, argued that companies have resorted to this tactic because the PTO is implementing the AIA improperly and ignoring the safeguards Congress included in the AIA to protect patent owners from abuse of those proceedings. He pointed to the fact that the PTO has done a bad job of protecting patent owners from repeat IPR filings and multiple attacks on their patents, and that they have been too aggressive in invalidating patents because they use the wrong claim construction standard—the one used by patent examiners at the application stage rather than that used by district courts. He argued that IPRs have been so harmful to the patent system that they have caused the U.S. to drop from first in the world in patent protection to tenth and allowed other countries to steal our technologies.

Chris Mohr of the Software and Information Industry Association argued that immunity was only necessary when states are operating in connection with their core governmental function. He argued that they should not benefit from sovereign immunity when acting as a participant in a commercial enterprise.

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