Client Alert

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House Committee Advances Competing Patent Reform Legislation

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With yesterday's House Judiciary Committee vote, there are now competing, and in some respects significantly different, patent reform proposals under serious consideration in the House and the Senate. Among the most important differences is a new provision in the House bill that effectively limits venue in patent cases brought by non-practicing entities to the location of the defendant or the inventor's research and development work. The House bill also creates a presumption in favor of fee-shifting, rather than requiring the prevailing party to prove its entitlement to fees as in the Senate bill. Like the Senate bill, the House bill seeks to curb perceived abuse of *inter partes* review and post-grant review proceedings by hedge funds, but does so by targeting specific practices, in contrast to the Senate bill's approach of giving the Patent and Trademark Office broad discretion not to institute proceedings. It remains to be seen how these differences will be resolved as the House and Senate continue to debate the competing bills.

The House Judiciary Committee voted 24-8 to send its patent reform bill—an amended version of H.R. 9, the Innovation Act—to the House floor for debate. Prior to the vote, the key provisions of the Innovation Act were heavily debated, with committee members proposing 20 amendments over the course of the day-long markup, many attempting to bring the Innovation Act more closely in line with the Senate bill. The committee ultimately adopted a manager's amendment offered by Chairman Bob Goodlatte (R-VA), the lead sponsor of the bill, along with five other amendments. The committee's approval of the Innovation Act comes just one week after the Senate Judiciary Committee voted to send its leading patent reform bill, the Protecting American Talent and Entrepreneurship (PATENT) Act, to the full Senate. (See our previous alert here.)

A major change to the bill was the addition of a new section imposing limits on the venue in which patent infringement suits may be filed. The new provisions allow a patent suit to be filed only in a judicial district where the defendant has its principal place of business, is incorporated, or has a physical facility giving rise to the alleged infringement; where a named inventor conducted research or development; or where the patentee has a physical facility "not primarily for the purpose of creating venue" and manufactures products embodying the patented invention. Representative Darrell Issa (R-CA), a lead proponent of the stricter venue requirements, argued that the provisions were needed to curtail "unreasonable venue shopping," given the high percentage of patent cases currently filed in the Eastern District of Texas. The venue provisions introduce a new issue to this year's patent reform debate, as the current version of the Senate bill does not address venue at all.

The amended Innovation Act also contains several changes to the section on *inter partes* review and post-grant review proceedings before the Patent and Trademark Appeals Board (PTAB). Like the Senate bill, the Innovation Act addresses concerns over perceived abuse of these proceedings by hedge funds and "reverse patent trolls."

Unlike the broader approach taken by the Senate bill, which provides the PTO Director with discretion not to institute proceedings in the "interests of justice," the Innovation Act directly targets the activities cited as abuse. It requires petitioners to certify that they do not own any financial instrument "designed to hedge or offset any decrease in the market value" of the patent owner's stock, and that they have not demanded payment from the patent owner in exchange for a commitment not to file a petition.

Committee members proposed several other amendments seeking to bring the language of the Innovation Act closer to that of the current Senate bill. The committee adopted an amendment to the discovery provision making it similar to the Senate version, which provides for a stay of discovery pending the resolution of an early motion to sever, transfer, or dismiss the action. Notably, however, the committee rejected attempts to weaken or create exemptions to the bill's fee-shifting provision. The Innovation Act imposes a presumption in favor of fee-shifting in patent cases *unless* the court finds that the losing party's position and conduct were "reasonably justified in law and fact," or "special circumstances" make fee-shifting unjust. By contrast, the Senate bill explicitly provides that the prevailing party bears the burden of proof in seeking an award of fees.

WHAT'S NEXT FOR PATENT REFORM?

The Innovation Act now heads to the House floor for further debate. Several committee members who withdrew their proposed amendments during yesterday's markup stated that they will continue to work on the issues and intend to raise them again when the bill proceeds to the floor. Moreover, important differences remain between the Innovation Act and the PATENT Act on several key issues. Below we summarize some of the main differences between the two bills.

Innovation Act (H.R. 9)	**PATENT Act (S. 1137)**
• Stricter requirements for venue	• No provision on venue
• Rebuttable presumption in favor of fee-shifting	• Prevailing party bears burden of proof on fee-shifting
• Narrow prohibition against hedge funds and "reverse patent trolls" using IPR and PGR processes	• PTO Director has discretion not to institute IPR or PGR based on "interests of justice"; challenged patents presumed valid; claim construction standard same as in district court

If the House and the Senate each pass their respective versions of patent reform, the bills will need to be reconciled before the legislation can be presented to President Obama to be signed into law.

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