June 12, 2015

**House Judiciary Committee Approve Bill Designed to Combat Patent Trolls**

Yesterday the House Judiciary Committee debated amendments to H.R. 9, the "Innovation Act," and voted to report the bill favorably to the House of Representatives. H.R. 9 is designed as a legislative response to abusive patent infringement enforcement practices of so-called patent "trolls."

Preceding the 24-8 final vote approving the bill and reporting it to the full House, the Committee adopted 6 amendments.

The first act of the Committee was to adopt Chairman Goodlatte's Manager's Amendment consisting of an Amendment in the Nature of a Substitute ("the Substitute") for the bill as introduced. The Substitute incorporates into the bill as introduced a number of amendments that have been negotiated and agreed upon by Committee members since the bill was introduced.

This devise allows all the changes that have been worked out and largely agreed on to be adopted in a single amendment at the start of markup, without having to offer and vote on all the individual changes. Upon its adoption, the Substitute became the bill to which additional amendments were offered.

*A copy of the Substitute is attached.* It makes a number of changes that move the bill closer in content to S. 1137, the "PATENT Act," which was favorable reported by the Senate Judiciary Committee on June 4, and which was the subject of my legislative report that day. Changes made by the Substitute include:

- Dropping provisions that stay discovery before claims construction orders are issued and substituting stays of discovery during the pendency of a motion to sever a claim or party, transfer the action, or dismiss the action.
- Adding language in the customer stay provisions to insure that eligibility for stays is limited to retailers and end user customer and does not extend to midstream participants who are value-added manufacturers.
- Rewriting section 6 of the bill to replace provisions that statutorily mandate rules for discovery and case management in patent cases with a pilot program under which six of the patent pilot districts established by Congress in 2009 will develop these rules.
- Authorizing a patent owner to include supporting evidence with a preliminary response to a petition for Inter Partes Review or Post Grant Review.
- Requiring an IPR or PGR petitioner to certify that he will not engage in hedging in the market value of an equity security of the patent owner after filing the petition.
The Goodlatte Substitute also contains amendments to the patent venue statute that have not appeared in any other patent reform bill in the 113th and 114th Congress.

These venue changes incorporate proposals advanced in 2008-2009, during the development of the AIA, but never adopted. Designed at least in part out of concern regarding the large concentration of suits filed in the Eastern District of Texas, the proposed venue requirements would make it more difficult to establish venue based on a defendant's ties to and activities in the district, and would establish new opportunities for venue based on ties to the district of the patent owner or the patent in suit.

The Substitute also includes language designed to reverse the results of the Supreme Court's 2013 decision in Gunn v. Milton, which held that a malpractice action growing out of a patent suit was not "a civil action arising under any Act of Congress relating to patents," and therefore was not subject to exclusive federal jurisdiction.

Following the adoption of the Substitute, 19 additional amendments to the bill were introduced and debated. Seven were defeated, another 7 were withdrawn before a vote, and 5 were adopted.

The adopted amendments included two largely technical amendments relating to stays of discovery during pendency of motions to sever, transfer, or dismiss. Another technical amendment was directed to the venue provisions added by the Substitute.

Following the defeat of his amendment that would establish a funding mechanism for the USPTO that would prevent user fee diversion and extend the fee-setting authority of the Director by 10 years (until 2028), Ranking Member Conyers offered an amendment that contained only the fee-setting provisions. That amendment was adopted.

The final adopted amendment mandates a study and report on district court discovery practices in patent cases.

Four amendments were offered that would provide exceptions to the enhanced pleading requirements in the bill. The proposed exceptions would be for a plaintiff who is an inventor or an original assignee; an institution of higher education; a small business, independent inventor, or non-profit; and a plaintiff who certifies that if not remedied the alleged infringement will result in the loss of at least 20 jobs. Lead by the strong opposition of Chairman Goodlatte, all four amendments were rejected.

Also rejected were amendments to extend the life of the Transitional Program for Covered Business Methods Patents program established by the America Invents Act, and an amendment to the fee-shifting provisions of the bill to require that before an award is made the prevailing party must move for such an award and the court must find that the position and conduct of the non-prevailing party were not objectively reasonable. The bill as introduced does not require a motion by the prevailing party, and places the burden of proof on the non-prevailing party to establish that its position and conduct were objectively reasonable.

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