



2015 Patent Reform Innovation Act (H.R. 9) and STRONG Patents Act (S. 632)

On February 5, 2015, House Judiciary Committee Chairman Robert Goodlatte reintroduced the Innovation Act (H.R. 9), a bill substantially identical to his Innovation Act of 2013. The 2013 bill overwhelmingly passed the House by a 325–91 vote. However, like other patent reform bills proposed in the Senate in 2013—including bills from Senator Leahy and Senator Cornyn—the Goodlatte bill did not reach a vote in the Senate Judiciary Committee or full Senate. Less than a month after the introduction of H.R. 9, on March 3, 2015, Senator Christopher Coons, together with Senators Richard Durbin and Mazie Hirono, introduced the Support Technology and Research for Our Nation’s Growth (“STRONG”) Patents Act of 2015 (S. 632). The two bills aim to improve the U.S. patent system and tackle abusive patent litigation, but they approach the issues from competing perspectives.

Proponents of H.R. 9 hope the bill will curb the “exponential increase in the use of weak or poorly granted patents by patent trolls to file numerous patent infringement lawsuits against American businesses.”¹ According to Chairman Goodlatte, businesses are being forced to spend valuable resources on patent

litigation instead of on innovation because the current patent laws are readily abused.²

The STRONG Patents Act, on the other hand, stems from the belief that eliminating abusive patent litigation cannot come at the expense of weakening patent protections for inventors.³ S. 632 includes “targeted thoughtful reforms to combat abuse where it’s prevalent while ensuring our rich innovation ecosystem remains vibrant,” said Senator Coons.⁴

Key Provisions of the Two Bills

Innovation Act (H.R. 9). H.R. 9 heightens the pleading standard in patent cases, requiring a party alleging infringement to identify: (i) each allegedly infringed claim; (ii) acts of alleged indirect infringement for claims of indirect infringement; (iii) the principle business of the party alleging infringement; and (iv) each complaint filed that asserts the same patents.⁵ H.R. 9 also mandates award of attorney’s fees to the

¹ See Press Release, Congressman Bob Goodlatte, Goodlatte Introduces Patent Litigation Reform Bill (Feb. 5, 2015), http://goodlatte.house.gov/press_releases/660.

² *Id.*

³ See Press Release, Senator Christopher Coons, Coons, Durbin, Hirono Introduce Patent Reform Bill To Protect Innovation, Confront Abuse (Mar. 3, 2015), <http://www.coons.senate.gov/newsroom/releases/release/coons-durbin-hirono-introduce-patent-reform-bill-to-protect-innovation-confront-abuse>.

⁴ *Id.*

⁵ H.R. 9, 114th Cong. (2015).

prevailing party unless the non-prevailing party's actions were "reasonably justified."⁶ In cases where the non-prevailing party is unable to pay attorney's fees and has no substantial interest in the subject matter of the litigation other than asserting the patent at issue, the bill requires the court to join, upon motion, any "interested" party.⁷ An "interested party" is defined as one who is an assignee of the patent, has a right to sublicense the patent, or has a direct financial interest in the patent.⁸ Further, H.R. 9 limits discovery until after claim construction and requires disclosure of the "ultimate parent entity" of any assignee of patents subject to lawsuits.⁹ In addition, post-issuance claim construction by the Patent and Trademark Appeals Board ("PTAB") is narrowed by H.R. 9 to fall in line with district court claim construction, and the PTAB is required to consider any prior claim constructions by a district court.¹⁰ The bill also codifies the doctrine of double patenting for first-inventor-to-file patents.¹¹

The STRONG Patents Act (S. 632). Much of S. 632 focuses on post-issuance review proceedings at the PTAB. Like H.R. 9, it equates claim construction in PTAB proceedings and district courts and requires the PTAB to consider prior claim

constructions by a district court.¹² But, unlike H.R. 9, S. 632 applies a presumption of validity to patents, as is currently the case in district court litigation.¹³ Thus, under S. 632, challengers to a patent would have to prove invalidity by clear and convincing evidence in PTAB proceedings. Notably, PTAB judges who rule on the institution of a review proceeding would be barred from deciding the merits of the petition.¹⁴ Additionally, S. 632 limits standing to file post-issuance review proceedings to only those individuals and entities that demonstrate "a reasonable possibility of being" charged with infringement.¹⁵ The bill also clarifies that, for indirect infringement, it shall not be a requirement that the steps of the patented process be practiced by a single entity, addressing the uncertainty introduced by the U.S. Supreme Court's recent decision in *Limelight v. Akmai*, 134 S. Ct. 1211 (2014), requiring indirect infringement to be premised on underlying direct infringement.¹⁶ Finally, S. 632 gives the FTC enforcement powers against certain bad-faith demand letters.¹⁷

The following comparison summarizes the key provisions of the two bills. We will track both bills as they move through the legislative process and provide updates as necessary.

6 *Id.*, p. 8.
7 *Id.*, p. 9.
8 *Id.*, p. 11.
9 *Id.*, p. 17.
10 *Id.*, p. 48.
11 *Id.*, pp. 50-51

12 S.R. 632, 114th Cong. (2015).
13 *Id.*, pp. 5-6.
14 *Id.*, p. 7.
15 *Id.*, p. 14.
16 *Id.*, p. 22.
17 *Id.*, p. 32.

Innovation Act (H.R. 9) and STRONG Patents Act (S. 632): A Comparison of Key Provisions

POST GRANT REVIEW (“PGR”) PROCEEDINGS

INNOVATION ACT – H.R. 9

Claim Construction: Each patent claim “shall be constructed as such claim would be in a civil action to invalidate a patent under Section 282, including construing each claim in accordance with the ordinary and customary meaning of such claim as understood by one of ordinary skill in the art and the prosecution history pertaining to the patent.” (H.R. 9, pp. 49-50).

Prior Court Construction: Requires the PTO to consider prior claim construction by a court in a civil action. (H.R. 9, p. 50).

Eliminates provision barring PGR petitioner from later asserting in a civil action that a claim is invalid on any ground that the petitioner “reasonably could have raised” during PGR. (H.R. 9, p. 48).

STRONG PATENTS ACT – S. 632

Claim Construction: Same as H.R. 9. (S. 632, pp. 10-11).

Prior Court Construction: Same as H.R. 9. (S. 632, p. 11).

Presumption of Validity: The presumption of validity under Section 282 (a) shall apply to previously issued claims challenged during a proceeding under this chapter. (S. 632, p. 13).

Burdens of Proof: Petitioner “shall have the burden of proving (A) a proposition of unpatentability of a previously issued claim by clear and convincing evidence; and (B) a proposition of unpatentability of a proposed amended claim by a preponderance of the evidence.” (S. 632, p. 13).

Amendment of the Patent: During post-grant review, the patent owner may move to amend the patent in the following ways: (i) cancel any challenged patent claim; or (ii) propose a reasonable number of substitution claims. (S. 632, p. 11).

- **Initial Amendment:** If the patent owner has not amended the patent under this subsection, a motion to amend filed by the patent owner *shall* be granted if the proposed number of substitute claims is reasonable. (S. 632, pp. 10-11).
- **Additional Amendments:** If the patent owner has amended the patent under this subsection, additional motions to amend may be permitted upon (i) the joint request of the petitioner and the patent owner to materially advance the settlement of a proceeding under Section 327; or (ii) the request of the patent owner for good cause shown. The PTAB shall determine in its discretion, whether to grant or deny such additional motions to amend. (S. 632, p. 12).
- An amendment to a patent under this subsection may not enlarge the scope of the claims of the patent or introduce new matter. (S. 632, pp. 12-13).

Composition of Panels: Each appeal, derivation proceeding, PGR ... shall be heard by at least three members of the PTAB, designated by the Director. A member of the PTAB who participates in the decision to institute a PGR ... shall be ineligible to hear the review. (S. 632, p. 16).

Persons That May Petition: A person may not file a petition for a PGR “unless the person, or a real party in interest or privy of the person demonstrates (A) a reasonable possibility of being (i) sued for infringement of the patent; or (ii) charged with infringement under the patent; or (B) a competitive harm related to the validity of the patent.” For the purpose of this subsection, “charged with infringement” means “a real and substantial controversy regarding infringement of a patent exists such that the petitioner would have standing to bring a declaratory judgment action in Federal Court.” (S. 632, pp. 13-14).

Discovery of Real Party in Interest: The Director shall provide regulations “setting forth standards and procedures for discovery of relevant evidence, including that such discovery shall be limited to (A) the deposition of witnesses submitting affidavits or declarations; (B) evidence identifying the petitioner’s real parties in interest.” (S. 632, p. 14).

Evidence Supporting Preliminary Response: Patent Owner may present “any supporting evidence that the petitioner is permitted to present.” (S. 632, pp. 14-15).

Reply and Surreply: If petitioner submits additional evidence in a reply to a preliminary response filed, the patent owner may submit a brief surreply, limited to addressing additional evidence, including with rebuttal evidence. (S. 632, p. 15).

Requirements for Authorization by Director: The Director may not institute an *inter partes* review of a patent while the patent is the subject of (i) a reissue proceeding or (ii) reexamination proceeding. (S. 632, pp. 15-16).

INTER PARTES REVIEW (“IPR”) PROCEEDINGS

INNOVATION ACT – H.R. 9

Claim Construction: Same as for PGR, above. (H.R. 9, pp. 48-49).

Prior Court Construction: Same as for PGR, above. (H.R. 9, p. 49).

STRONG PATENTS ACT – S. 632

Claim Construction: Same as H.R. 9. (S. 632, pp. 4-6).

Prior Court Construction: Same as H.R. 9. (S. 632, p. 6).

Presumption of Validity: Same as for PGR, above. (S. 632, p. 7).

Burdens of Proof: Same as for PGR, above. (S. 632, p. 7).

Amendment of the Patent: Same as for PGR, above. (S. 632, pp. 5-7).

Composition of Panels: Same as for PGR, above.. (S. 632, p. 16).

Persons That May Petition: A person may not file a petition for an IPR “unless the person, or a real party in interest or privy of the person has been (A) sued for infringement of the patent; or (B) charged with infringement under the patent.” For the purpose of this subsection, “charged with infringement” has the same meaning as it does for PGR, above. (S. 632, p. 8).

Discovery of Real Party in Interest: The Director shall provide regulations “setting forth standards and procedures for discovery of relevant evidence, including that such discovery shall be limited to (A) the deposition of witnesses submitting affidavits or declarations; (B) evidence identifying the petitioner’s real parties in interest; and (C) what is otherwise necessary in the interest of justice.” (S. 632, pp. 8-9).

Evidence Supporting Preliminary Response: Same as for PGR, above. (S. 632, p. 9).

Reply and Surreply: Same as for PGR, above. (S. 632, p. 9).

Requirements for Authorization by Director: Same as for PGR, above. (S. 632, p. 10).

REQUEST FOR REEXAMINATION

INNOVATION ACT – H.R. 9

NA

STRONG PATENTS ACT – S. 632

“Any person at any time may file a request for reexamination by the Office of any claim of a patent on the basis of any prior art cited under the provisions of section 301 The request must identify all real parties in interest and certify that reexamination is not barred under section 303(d). The request must set forth the pertinency and manner of applying cited prior art to every claim for which reexamination is requested. Unless the requesting person is the owner of the patent, the Director promptly will send a copy of the request to the owner of record of the patent.” (S. 632, p. 17).

Reexamination Barred by Civil Action: “An ex parte reexamination may not be instituted if the request for reexamination is filed more than 1 year after the date on which the requester or a real party in interest or privy of the requester is served with a complaint alleging infringement of the patent.” (S. 632, p. 17).

BAD FAITH DEMAND LETTERS

INNOVATION ACT – H.R. 9

Articulates the “sense of Congress” that it is an abuse of the patent system and against public policy for a party to send out purposely evasive demand letters to end users alleging patent infringement. Any actions or litigation stemming from sending a purposely evasive demand letter should be considered “a fraudulent or deceptive practice and an exceptional circumstance when considering whether the litigation is abusive.” (H.R. 9, pp. 14-15).

Claimant asserting willful infringement “may not rely on evidence of pre-suit notification unless such notification identifies with particularity the asserted patent, identifies the product or process accused, identifies the ultimate parent entity of the claimant, and explains with particularity, to the extent possible following reasonable investigation or inquiry, how the product or process infringes.” (H.R. 9, pp. 15-16).

STRONG PATENTS ACT – S. 632

“It shall be an unfair or deceptive practice” for a person to send a written communication alleging infringement if the sender states or represented *wrongly* and *in bad faith* that (S. 632, pp. 27-29):

- The sender is a person with the right to license and enforce the patent;
- A civil action asserting a claim of infringement has been filed against the recipient;
- A civil action asserting a claim of infringement has been filed against other persons;
- Legal action for infringement of the patent will be taken against recipient;
- The sender is the exclusive licensee of the patent;
- Persons other than the recipient purchased a license for the patent asserted in the letter;
- Persons other than the recipient purchased an unrelated license and it is not identified as such;
- An investigation of the recipient’s infringement occurred; or

If the sender in bad faith seeks compensation for (S. 632, pp. 29-30):

- A patent that is held to be unenforceable or invalid in a final determination;
- Activities taken by the recipient after expiration of the asserted patent;
- Activity of the recipient that the sender knew was authorized by a person with right to license the patent; or

If the sender in bad faith fails to include (S. 632, pp. 30-31):

- The identity of the person including the name of the parent entity unless such person is a public company and the name of the public company is identified;
- An identification of at least one patent allegedly infringed;
- An identification of at least one product or service of the recipient infringing the identified patent;
- A name and contact information for a person the recipient may contact about the assertions or claims.

Affirmative Defense: Provides an affirmative defense that statements were not made in bad faith if the sender demonstrates that such statements were mistakes made in good faith; for example, by demonstrating that the sender in the usual course of business sends communications that do not violate this provision. (S. 632, p. 31).

Violation and Enforcement: A violation of the above provisions shall be treated as a violation of a rule defining an unfair or deceptive act or practice under the Federal Trade Commission Act (“FTCA”) (15 U.S.C. 57(a)(1)(B)). Enforcement shall be by the same means, and with the same jurisdiction, powers, and duties as the FTCA (15 U.S.C. 41). (S. 632, p. 32).

Preemption of State Laws: This title preempts any state law expressly relating to the transmission or contents of communications relating to the assertion of patent rights but shall not preempt or limit any provision of any state law, including consumer protection law, contract law, or tort law. (S. 632, p. 33).

Enforcement by State Attorneys General: In any case in which the attorney general of a state has reason to believe that the interest of residents of that state has been adversely affected, the attorney general may bring a civil action in a district court of the United States to enjoin such action or to obtain civil penalties as a result of such violation. (S. 632, p. 33).

Maximum Civil Penalty: A person may not be liable for a total of more than \$5 million for a series of related violations. (S. 632, p. 34).

COST SHIFTING INCLUDING ATTORNEY FEES

INNOVATION ACT – H.R. 9

Court shall award fees to prevailing party unless the position and conduct of nonprevailing party were reasonably justified in law and fact or special circumstances (e.g., severe economic hardship to named inventor) make such an award unjust. (H.R. 9, p. 6).

If nonprevailing party is unable to pay, court may make fees recoverable against joined “interested party” (an assignee, a party with right to enforce or sublicense the patent, or a party with direct financial interest in the patent). (H.R. 9, p. 6).

Party asserting claim, who later extends covenant not to sue, is deemed “nonprevailing party” unless that party would have been entitled at the time of extending the covenant to voluntarily dismiss the action. (H.R. 9, p. 7).

STRONG PATENTS ACT – S. 632

NA

DISCLOSURE OF REAL PARTY-IN-INTEREST

INNOVATION ACT – H.R. 9

Upon filing of an initial complaint for patent infringement (except in ANDA cases), the plaintiff shall disclose to court, USPTO, and adverse parties the identity of the following parties as related to the patent at issue:

- The assignee, and ultimate parent entity thereof,
- Any entity with a right to sublicense or enforce the patent, and any parent entity thereof,
- Any entity, other than the plaintiff, that the plaintiff knows to have a financial interest in the patent or patents at issue or the plaintiff. (H.R. 9, pp. 16-17).

“Financial interest” is defined as ownership/control of >5% of plaintiff or right to receive proceeds from assertion of patent. (H.R. 9, p. 18).

- Court may join “interested party” upon showing by defendant that plaintiff has no substantial interest in the subject matter at issue other than asserting the patent in litigation. (H.R. 9, p. 8).

STRONG PATENTS ACT – S. 632

NA

STAYS OF LITIGATION AGAINST END USERS

INNOVATION ACT – H.R. 9

Court shall grant a motion to stay at least the portion of the action against a covered customer related to infringement of a patent if (H.R. 9, p. 22):

- The covered manufacturer and the covered customer consent in writing to the stay,
- The manufacturer is a party to the action or to a separate action involving the same patent or patents related to the same covered product or process,
- The covered customer agrees to be bound by any issues that are in common with the covered manufacturer and are finally decided.

Motion must be filed within later of 120 days or the date the first scheduling order is entered.

Customer must agree to be bound by any issues finally decided as to the manufacturer. (H.R. 9, p. 23).

If manufacturer seeks or consents to entry of a consent judgment or does not appeal a final decision, court may determine that decision is not binding on customer. (H.R. 9, pp. 23-24).

The stay may be lifted where manufacturer suit will not resolve major issue in customer suit or is unjust to the party moving to lift the stay. (H.R. 9, pp. 23-24).

STRONG PATENTS ACT – S. 632

NA

EXPANDING TRANSITIONAL PROGRAM FOR COVERED BUSINESS METHOD PATENTS

INNOVATION ACT – H.R. 9

Amends the scope of prior art to include 102(e) prior art (in addition to 102(a) prior art). (H.R. 9, p. 53).

Allows USPTO Director to waive fee. (H.R. 9, p. 54).

STRONG PATENTS ACT – S. 632

Expands the scope of the Patent Pilot Program. The Director shall designate not fewer than six of the patent pilot courts, and such courts shall develop procedures for expediting cases in which an individual or small business concern is accused of patent infringement. (S. 632, pp. 24-25).

IDENTIFICATION OF CORE DISCOVERY AND DISCOVERY FEE SHIFTING

INNOVATION ACT – H.R. 9

Discovery prior to claim construction ruling shall be limited to information necessary to construe claims or resolve motions. Limit does not apply to actions seeking a preliminary injunction based on competitive harm or if parties voluntarily consent to be excluded. (H.R. 9; pp. 12, 14).

Court shall expand discovery limits in actions where resolution specified period of time necessarily affects the rights of a party with respect to a patent, to ensure timely resolution of the action. (H.R. 9, pp. 13-14).

Permits court to allow additional discovery as necessary to prevent manifest injustice. (H.R. 9, p. 14).

The Judicial Conference shall develop rules on payment and prerequisites for document discovery in addition to core documentary evidence; provides specific proposals the Judicial Conference should consider on discovery of core and additional documentary evidence, electronic communication, and discovery timing. (H.R. 9, pp. 27-28).

The Judicial Conference “shall study efficacy of rules and procedures” for the first four years after implementation and authorizes modification following this study; authorizes modification during the first four years after implementation to prevent a manifest injustice, the imposition of an excessively costly requirement, or an unintended result. (H.R. 9, p. 34).

STRONG PATENTS ACT – S. 632

NA

DAMAGES FOR WILLFUL AND DIVIDED INFRINGEMENT

INNOVATION ACT – H.R. 9

NA

STRONG PATENTS ACT – S. 632

Willful Infringement Damages: Shall in no event be less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court. When the damages are not found by a jury, the court shall assess them. (S. 632, pp. 21-22).

- In either event, the court may exercise its discretion to increase damages up to three times the amount found or assessed upon determining, by a preponderance of the evidence, that the infringement was willful or in bad faith. (S. 632, p. 22).

Divided Infringement Damages: For a finding of liability for actively inducing infringement of a process patent, or for contributory infringement of a process patent, it shall not be a requirement that the steps of the patented process be practiced by a single entity. (S. 632, p. 22).

BANKRUPTCY PROTECTION

INNOVATION ACT – H.R. 9

Bars bankruptcy trustee from terminating certain licenses. (H.R. 9, pp. 37-38).

Adds trademarks to definition of “intellectual property” in Title 11. (H.R. 9, p. 37).

Regarding trademarks, holds bankruptcy trustee to any contractual obligation to monitor and control the quality of a licensed product or service. (H.R. 9, p. 38).

STRONG PATENTS ACT – S. 632

NA

DOUBLE PATENTING

INNOVATION ACT – H.R. 9

Codifies doctrine of double patenting for first-inventor-to-file patents. (H.R. 9, pp. 50-52).

STRONG PATENTS ACT – S. 632

NA

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