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Patent Reform Expected to Become Law

On September 8, Congress passed the Leahy-Smith America Invents Act. President Obama is expected to sign the bill into law. Harmonizing many aspects of U.S. patent law with the patent laws of most foreign jurisdictions, the bill constitutes a major modification to the Patent Act of 1952 and is expected to have sweeping effects on patent procurement and enforcement. It moves the U.S. from the current first-to-invent system to a first-inventor-to-file (FITF) system and makes a number of other significant changes to the patent law.

The following are some of the highlights of the bill that relate to patent procurement:

- **First-Inventor-To-File (FITF)** – Under the current first-to-invent system, a first inventor may receive a patent on an invention even if a second inventor subsequently and independently invents the same device and files for a patent application before the first inventor files. The new FITF system reverses the situation, issuing a patent to the first to file even if this individual was the second inventor (although prior publication by the later-filing inventor could alter the result in this regard). This system is similar to the approach taken in most foreign jurisdictions, except that the U.S. implementation retains a limited one-year grace period for filing an application after a public disclosure of the invention by the inventor or another who had obtained the information from the inventor. FITF provisions will apply to patent applications that are filed 18 months after the date of enactment.
- **Derivation Proceedings** will replace interference proceedings (under 35 U.S.C. § 135). Derivation proceedings will become available to determine whether a named inventor in an earlier-filed application derived the claimed subject matter from the inventor of a later-filed patent application. Derivation proceedings will be available for patent applications with priority claims that are 18 months after the date of enactment.
- **Patent-Ineligible Inventions** – Upon enactment of the bill, patents will not be granted for inventions that cover tax strategies or human organisms. These provisions will be effective upon enactment of the bill.
- **Pre-Grant Prior Art Submission** – The bill adds to 35 U.S.C. 122 a subsection “e” entitled “Preissuance Submissions by Third Parties.” Third parties already enjoyed a limited right to submit prior art patents and publications pursuant to 37 C.F.R. 1.99, but 35 U.S.C. 122(e) offers third parties some advantages over prior practice. Whereas third parties were previously required to submit prior art “within two months from the date of the publication of the application,” 122(e) expands that time period to six months from publication (assuming no intervening notice of allowability). Also, whereas third parties were previously prohibited from offering “any explanation of the patent or publications,” 122(e) actually requires an explanation of the relevance. This provision takes effect one year after the bill is signed into law and will be applicable to any applications then pending.

The following highlights relate to post-grant patent challenges or patent litigation:

- **Post-Grant Review** – The bill establishes a new “Post-Grant Review” procedure. This new provision establishes a nine-month window after a patent issues within which the validity of a patent may be challenged on any ground (including 35 U.S.C. 112) provided the petitioner can establish either (i) “that it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable”; or (ii) “that the

petition raises a novel or unsettled legal question that is important to other patents or patent applications.” However, no such petition for review will be granted if the petitioner has previously filed a civil action challenging the validity of the patent (a counterclaim of invalidity does not constitute such a civil action). Petitioner will be estopped from later asserting invalidity “on any ground that the petitioner raised or reasonably could have raised.” Post-grant reviews will become available one year after the bill becomes law.

- **Transitional Business Method Review Process** – In addition to the general post-grant review process described above, the bill also sets forth a transitional (it sunsets after eight years) business method review process for qualifying business methods patents that claim “a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service.” This transitional business method review process “shall employ the standards and procedures of, a post-grant review,” subject to some enumerated differences. One such difference is that the nine-month post-issuance deadline of the post-grant review process is expressly made inapplicable to the transitional business method review process. Another difference is that the “reasonably could have raised” estoppel of the post-grant review is likewise made inapplicable. Instead, a petitioner will only be estopped from later raising an invalidity ground that a petitioner actually raised during the proceeding. Another distinction is that a petition for a transitional proceeding can be filed only after the petitioner has been sued for, or charged with, infringement. This transitional business method review process takes effect one year after the bill’s enactment date, and sunsets (automatically repeals) eight years later.
- **Heightened *Inter Partes* Reexamination Standard** – Upon enactment of the bill, the standard for granting requests for *inter partes* reexamination will be changed from the current “a substantial new question of patentability” standard to “a reasonable likelihood that the requestor would prevail with respect to at least 1 of the claims” standard.
- ***Inter Partes* Review** – The current *inter partes* “reexamination” process will be replaced with an *inter partes* “review” process one year after the bill is passed. A petition for *inter partes* review cannot be filed *before* the later of either (i) nine months after the grant of the patent or (ii) the termination of a post-grant review. And a petitioner cannot initiate an *inter partes* review more than one year *after* the petitioner is served with a complaint alleging infringement of the patent. The new *inter partes* review will allow for discovery of relevant evidence, including “deposition of witnesses submitting affidavits” and “what is otherwise necessary in the interest of justice.” The new *inter partes* review will also provide a petitioner with “at least 1 opportunity to file written comments” and “the right to an oral hearing.” To initiate an *inter partes* review the petitioner will need to show “a reasonable likelihood that the requestor would prevail with respect to at least 1 of the claims” under 35 U.S.C. 102 or 103 based on patents or printed publications. The America Invents Act will not change the existing *ex parte* reexamination process.
- **Prior User Defense** – The bill expands the scope of the prior commercial use defense of 35 U.S.C. 273 from “a method of doing or conducting business” to subject matter “consisting of a process, or consisting of a machine, manufacture, or composition of matter used in a manufacturing or other commercial process.” The bill likewise expands the scope of who may claim the defense somewhat to include not only the person who performed or directed the performance of the commercial use, but also any “entity that controls, or is controlled by, or is under common control with such person.” To qualify, the commercial use must have occurred at least one year before the earlier of (i) the effective filing date of the claimed invention or (ii) a disclosure by the inventor that took place less than one year prior to the filing date of the claimed invention. The prior commercial use defense is, however, subject to the “University Exception,” whereby the defense is not allowed to be asserted if the claimed invention was “made, owned or subject to an obligation of assignment to an institution of higher education ... or a technology transfer organization whose primary purpose is to facilitate the commercialization of technologies developed by one or more such institutions of higher education.” The revisions to Section 273 take effect on the enactment date.

- **No *qui tam* False Marking Suits** – The bill amends 35 U.S.C. 292 to eliminate the grounds for most recent false marking suits by mandating that only the United States may sue for the statutory damages of “\$500 for every such offense.” The bill allows a person who has suffered a “competitive injury” as a result of false marking to recover damages adequate to compensate for such injury. Additionally, marking goods with expired patents will no longer be a violation of the statute. These modifications to section 292 take effect on the enactment date.
- **Best Mode** – Best mode is removed from the arsenal of invalidity defenses available to patent infringement defendants. The language of 35 U.S.C. 112 still purports to require that the specification “set forth the best mode contemplated by the inventor,” but the bill modifies 35 U.S.C. 282 to make clear that a failure to disclose the best mode is no longer a defense to an infringement action. This change becomes effective on the enactment date.
- **Joinder of Accused Infringers** – No longer will patent trolls be allowed to sue multiple unrelated defendants in the same action. Pursuant to newly added 35 U.S.C. 299, accused infringers may be “joined in one action as defendants” or have their actions “consolidated for trial” only if (i) the infringement allegations flow from “the same accused product or process” and (ii) “questions of fact common to all defendants or counterclaim defendants” will arise in the action. This provision would not, however, preclude courts from consolidating cases for purposes of discovery.

The bill grants the PTO authority “to set or adjust by rule any fee established or charged by the Office.” However, the bill does not eliminate fee diversion by Congress. Ten days after enactment, a 15 percent fee surcharge will be added to all patent-related fees.

The above highlights provide a brief overview of some of the key changes that will be made to the U.S. patent system by the expected enactment of the Leahy-Smith America Invents Act. McGuireWoods intellectual property attorneys are prepared to assist clients in understanding, maneuvering and benefiting from these patent law changes.

For questions related to this announcement, please feel free to contact any of the below.

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