

Client Alert.

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Patent Reform Is Upon Us

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The Senate voted today to adopt the House of Representatives' version of the Leahy-Smith America Invents Act, advancing it to the president's desk. President Obama has indicated his willingness to sign the bill into law in a timely fashion. Passage of the Act represents the culmination of more than six years of effort. Upon being signed into law, the Leahy-Smith America Invents Act will be the first major overhaul to the patent system in almost 60 years.

PATENT REFORM BACKGROUND

The Leahy-Smith America Invents Act can trace its birth to a debate initially sparked by a 2004 National Academy of Science report that recommended overhauling the patent system to address what it identified as weaknesses in questionable patent quality, rising transaction costs, and international inconsistencies in patent coverage. The report recommended the introduction of a mechanism for post-grant challenges of newly issued patents, amendments to simplify and reduce the cost of patent litigation, and harmonization of the U.S. patent law with European and Japanese patent law. The Act passed today addresses many of the themes first raised in the National Academy's report. Only time will tell how effective these changes will be in decreasing pendency, increasing patent quality, and reducing transaction costs.

FUNDING THE PATENT OFFICE

Inadequate funding for the Patent Office has consistently been identified as a factor contributing to the dual problems of growing pendency times and a perceived decrease in patent quality. The current backlog of patent applications has been estimated at more than 700,000 and insufficient funding, leading to fewer patent examiners, is frequently identified as a causative factor for the backlog. Ironically, the Patent Office actually takes in more money than it receives in its annual appropriation and it has been estimated that Congress has diverted nearly \$1 billion from the PTO's coffers over the last ten years.

Ending fee diversion was a motive force propelling patent reform out of the Senate on March 8, 2011, with a vote of 95-5. The Senate's earlier version of the Act abolished the practice of fee diversion. The Act passed today, however, provides a weaker solution to the problem: it creates a fund to receive USPTO user fees, but also grants the PTO fee-setting authority. Critics say that because the USPTO will need to petition the House to receive money from the fund, the practical impact of this solution could lead to a situation similar to that of the present-day fee diversion situation. Thus, it remains to be seen if this approach will allow the Patent Office the flexibility to hire more examiners and provide the additional resources necessary to reduce the backlog of pending applications.

"FIRST TO FILE"

The Senate's adoption of H.R. 1249 transforms the United States from a "first to invent" jurisdiction to one where the right to a patent is given to the party that is "first to file." Going forward, the inventor with the earliest-filed application is now the one entitled to claim the patent. Under current law, an inventor may challenge a patent application through the interference process by arguing that he or she can document an invention date prior to the applicant's filing date. The change in the law spells an end to interference practice, and serves to harmonize the United States' patent system with that of every other major jurisdiction throughout the world.

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The Act also creates a new “derivation” proceeding. This new process is designed to provide recourse to inventors who are not the first to file and claim that their invention has been copied. The newly formed Patent Trial and Appeal Board, staffed by administrative patent judges, and which replaces the Board of Patent Appeals and Interferences, will adjudicate such proceedings.

GRACE PERIOD AND PRIOR ART

In addition to changing the U.S. patent system from a first-to-invent to a first-to-file system, the new legislation significantly alters the nature of the prior-art grace period. Under the previous statute, inventors enjoyed robust protection against disclosures, public use, or sales that occurred within one year of the filing date, regardless of who was responsible for the disclosure. Under the new statutory system, any printed publication, public use, sale, or availability to the public even a day before the effective filing date of the claimed invention can be novelty-defeating. Inventors may only avail themselves of a grace period that is limited to their own “disclosures,” but can no longer “swear behind” third-party disclosures. Additionally, the term “disclosure” has been criticized as being unclear as to whether public use or sales activities by inventors are considered to be a disclosure for the purpose of falling within the grace period. As such, the nature of what constitutes prior art is not clear and likely will be the subject of litigation in the future.

The Act expands the scope of materials to be considered as prior art. For instance, the “in this country” limits found in the current statute under 35 U.S.C. § 102 (a) are absent from the Act. Thus, claims are now subject to attack by evidence of a prior public use of the invention anywhere in the world.

Third parties will now be able to play a larger role in prosecution because the Act allows for greater pre-issuance input. Under the current law, third parties can only submit prior art in applications before publication. Adoption of the Leahy-Smith America Invents Act permits third parties to submit prior art after publication or the first rejection, but before a notice of allowance.

AUGMENTED POST-ISSUANCE PTO REVIEW SYSTEM

The Act passed today provides the public with new tools for dealing with issued patents. Under the current law, once a patent has issued, a third party was limited to two proceedings to challenge a patent before the PTO: either an *ex parte* reexamination, or an *inter partes* reexamination. Both procedures required the existence of at least one substantial new question of patentability to have the PTO reopen prosecution. The new law leaves *ex parte* reexamination proceedings intact but significantly alters *inter partes* reexamination procedures. The new law also creates a post-grant review procedure and a supplemental examination procedure, as well as providing a review procedure to deal with business method patents.

***Inter partes* reexaminations:**

- Abolished after one year with a transition provision to deal with requests filed during the transition period.
- Replaced with *inter partes* review procedure.
- New standard: “A reasonable likelihood that the requester would prevail with respect to at least one of the claims challenged in the request.”
- Addition of discovery to the procedure.

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Post-grant review:

- Permits a third party to challenge the patent on a broader range of issues than is currently available to reexamination petitioners.
- Challenge to a patent within nine months of issuance.
- Standard: The petitioner must show that “it is more likely than not that at least one of the claims challenged in the petition is unpatentable.”
- Alternative standard: a petitioner may succeed in instituting a challenge if the “petition raises a novel or unsettled legal question that is important to other patents or patent applications.”
- Automatic stay of civil litigation, in very limited situations, if the litigated patent is also the subject of the post-grant review.
- Discovery available.

The Act also provides a new supplemental examination procedure that provides a mechanism for patentees to cure a patent of inequitable conduct. The standard for instigating this procedure is a substantial new question of patentability, like that of the *ex parte* reexamination procedure. However, unlike in that procedure, the prior art considered is not limited to patents and printed publications.

EXPANSION OF THE PRIOR USE DEFENSE

In its current form, 35 U.S.C. 273 provides prior users of a business method with a defense to infringement in the event that someone obtains a patent for that method. Passage of the Act extends the prior use defense to all patents. This defense implicates broader intellectual property strategies. Currently, people are faced with a choice between keeping an invention as a trade secret, or disclosing it to the public in exchange for a patent on that invention. The downside for someone who chooses to keep an invention secret is if another party gains patent protection for that invention, the prior user may be subject to suit for patent infringement. Under the relevant provisions of the Act, however, the prior user can rely on his or her prior use of the invention as a defense to infringement.

BRAVE NEW WORLD OF PATENT PRACTICE

Passage of the Leahy-Smith America Invents Act and its being signed into law will usher in a new era of patent practice. Companies will need to reevaluate their patent application filing strategies and their policies regarding public disclosures of their inventions in view of the shift to first-to-file and the changes to what is considered prior art. Strategies for dealing with a competitor’s patent estate will also have to evolve. In the wake of the Act, the use of reexamination procedures and the new post-grant review procedures may shift patent battles from the courtrooms of Eastern Texas to the halls of the PTO. Morrison & Foerster will continue to provide guidance on this issue with forthcoming Client Alerts detailing many of the nuances in this landmark legislation. **On September 15, in conjunction with *Managing IP*, we invite you to attend a webinar focusing on the new post-grant system. For information on the webinar, please click [here](#).**

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