

Patent Reform Becomes Law of the Land

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The U.S. Congress has passed the most expansive piece of patent reform legislation in decades, and enactment awaits only President Obama's signature, which is expected shortly. The new law includes revisions that affect both patent prosecution strategy and patent litigation strategy. The major aspects of the legislative changes are presented below.

First Inventor to File

Numerous changes to the existing patent laws are made to transition the United States from a first-to-invent to a first-to-file patent system. The sections of the current law most affected are 35 U.S.C. § 102 and 35 USC § 103. The new law defines "effective filing date" as either the filing date of the earliest application to which the current application can claim a priority benefit, or the actual date of filing of the application.

Section 102, which defines the novelty requirement, is changed to expand the scope and content of the prior art. Printed publications, public use and the on sale bar are still defined as prior art under the new § 102. In addition, § 102 is amended to now include anything "otherwise available to the public" before the effective filing date of the patent application. Prior art under § 102 also includes U.S. patents and publications of another (inventor) having an effective filing date before the pending application.

The new § 102 does not contemplate the ability to swear behind a reference. However, there are exceptions that preserve the current one-year grace period. If a disclosure is made by the inventor or by another that obtained the disclosed information directly or indirectly from the inventor, the one-year grace period is still available. Also, for patents and publications, a public disclosure is not prior art if the information was obtained directly or indirectly from the inventor. Patents and publications are prior art as of their effective filing date.

While the methodology for determining obviousness remains unchanged, the scope and content of the prior art available for use in the obviousness analysis has been expanded. All prior art having an effective filing date before the pending application is within the realm of prior art for determining obviousness.

Interferences to Disappear/Derivation Proceedings to Remain

Although interferences will be phased out within 18 months of the enactment date under the new law, derivation proceedings will be available provided the request is filed within one year of the issuance of the first patent claiming the disputed invention.

The decision to institute a derivation proceeding falls to the Director and is non-appealable, but will presumably be subject to the petitions process. The Patent Trial and Appeal Board (TTAB) will host the procedure. The private involved parties can resolve a derivation proceeding by settlement.

Oath and Declaration

Each inventor is still required to submit an oath or declaration. The Act details the statement that each inventor must make. It is interesting to note that an inventor's statement can now be made in an assignment document. Also, a new declaration is not required in a continuation application, although a copy of the original may be required.

Prior Commercial Use Defense

The passing of the Act expands the "prior use" defense. In order to assert the defense, the use must have occurred in the United States. The use alleged prior must have also been more than one year before the effective filing date of the asserted patent or more than one year before any public disclosure that qualifies for the new § 102(b) prior art exception. Prior use must be proven by clear and convincing evidence. Of course, there are limitations on the prior use defense. The defense can only be asserted by the person or company that directed the performance of the use. The right to assert the defense can only be assigned to another entity as part of a transfer of a line of business or the entire enterprise.

Asserting the defense is not without risk. If the defense is pled but later found to have been unreasonably asserted, a court can find the case exceptional for the purpose of awarding attorney fees.

Post-Grant Review

Anyone who is not the owner of the patent can request a post-grant review of an issued patent during the period ending nine (9) months after the grant. Under post-grant review, the patent can be challenged on *any* grounds, *i.e.*, post-grant review is *not* limited to novelty and obviousness. The threshold for initiation (subject to adjudication by the U.S. Patent and Trademark Office (PTO) in deciding whether to institute) only requires a finding that, if unrebutted, it is more likely than not that at least one of the challenged claims is unpatentable on the basis stated in the petition. A review can also be instituted if the petition raises a novel or unsettled legal question. The decision of whether to institute a review is final and non-appealable (but presumably subject to petitions practice).

If a party files a lawsuit challenging the patent validity (*e.g.*, a declaratory judgment action) prior to filing for post-grant review, it cannot petition for post-grant review. If a party files a petition for post-grant review and then institutes a civil action, there will be an automatic stay of the civil litigation until the patent owner moves the court to lift the stay, the patent owner files a civil action charging the petitioner with infringement, or petitioner moves the court to dismiss the civil action. A party provoking a post-grant review is precluded from raising as a defense in any later litigation any prior art or other basis for invalidity that was raised during the post-grant review, or reasonably could have been raised.

A post-grant review proceeding can be terminated by means of a written settlement agreement. Any appeal of the *inter partes* review decision is directly to the U.S. Court of Appeals for the Federal Circuit. (*i.e.*, no *de novo* appeal to the district court is available.)

***Inter Partes* Review**

Inter partes review (which replaces the present *inter partes* reexamination proceeding) is limited to novelty and obviousness challenges. A petition for *inter partes* review can

be filed after the later of either nine (9) months after the issuance of the patent or the termination of a post-grant review. However, an *inter partes* review can not be instituted if the request is filed more than one year after having being served with a complaint for infringement.

The evidence that may be presented in an *inter partes* review proceeding is limited to patents, publications and expert declarations. The threshold for instituting an *inter partes* review petition is whether the PTO finds that there is a reasonable likelihood that the petitioner will prevail on at least one claim. The decision of whether to institute an *inter partes* review is final and not appealable (but will presumably be subject to petitions practice).

If there is co-pending litigation challenging the validity of the patent, the Act provides for an automatic stay of that civil action until the patent owner moves the court to lift the stay, the patent owner files a civil action charging the petitioner with infringement, or petitioner moves the court to dismiss the civil action.

The requester is precluded in any subsequent action before the PTO, or in litigation, from asserting any defense that was raised during *inter partes* review or that could reasonably have been raised during the *inter partes* review. The review can be terminated by a settlement between private parties. Any appeal of the *inter partes* review decision is directly to the Federal Circuit, *i.e.*, no *de novo* district court review will be available.

Citation of Prior Art and Written Statements

Any person at any time can cite prior art to the PTO, if they believe the art has a bearing on the patentability of any claim of a patent. Also, any person can cite statements made by a patent owner in federal court that highlight the patent owner's position on the scope of any claim.

Patent Trial and Appeal Board

The Board of Patent Appeals and Interferences (BPAI) is replaced with the Patent Trial and Appeal Board (PTAB). The PTAB will review appeals of Examiner rejections and reexamination appeals, and will conduct derivation proceedings and *inter partes* review.

The PTAB will consist of a number of three-member panels. Decisions of the PTAB are appealable only to the Federal Circuit.

Preissuance Submissions by Third Parties

Any third party can submit patents, publication or other published materials to the PTO. The submission must be made before the issuance of a notice of allowance or the later of either six months after the application publishes or the issuance of the first rejection. The submission must include a concise statement why each submitted document is relevant, a fee and statement of compliance.

Venue

The Act changes the venue for proceedings involving the PTO from the District of Columbia to the Eastern District of Virginia.

Fee Setting Authority

The Act gives the Director the power to set and adjust fees in order to recover costs. Also, the Act creates a new filing status—the Micro entity. The Micro entity receives a 75 percent reduction in the official fees. To qualify as a Micro entity, an applicant must not have been named as an inventor on more than four previously filed patent applications, excluding foreign application and provisionals; must have a gross income that exceeds three times the median household income; and must not have assigned or licensed the application to an entity that exceeds the income threshold. Applications from prior employment where there was an obligation to assign do not count against the limit of four. Micro Entities may also include institutions of higher education and applicants who work for those institutions.

To encourage the use of the PTO's electronic filing system, if an applicant wishes to file in paper it will cost an additional \$400. This fee does not apply to provisional, design or plant applications.

The Act also provides for prioritized examination. If an applicant is willing to pay a fee of \$4,800 in addition to the normal fees, it can skip the traditional waiting times. The filed application cannot have more than four independent claims and 30 total claims.

Prioritized examination becomes available 10 days after the date of enactment of the Act. The PTO will only initially accept 10,000 such requests a year.

Supplemental Examination

A patent owner may request supplemental examination of an issued patent. The request can be used to consider, reconsider or correct information believed to be relevant to the patent. If it is determined that a substantial new question of patentability is raised, a reexamination shall be ordered. Submitting information that was not originally disclosed to the PTO during the supplemental examination will not be used as a basis for rendering the patent unenforceable. However, this exception will not apply to allegation pled with particularity in a civil action before the date of the supplemental examination request.

Tax Strategy Patents

Any tax strategy for reducing, avoiding or deferring tax liability is deemed within the prior art. Exclusions exist for methods and systems used solely for preparing a tax return and for financial management systems to the extent it is severable from any tax strategy.

Best Mode Requirement

As of the date of enactment, failure to disclose the best mode in patent can no longer be used to invalidate any claim of a patent. However, the best mode requirement remains as an examination issue.

Marking

Patent holders can now “virtually” mark their products by fixing “patent” or “pat.” together with a publicly accessible internet address. This change applies to any case existing on or filed after the date of enactment of the Act.

False Marking

False patent marking suits should fall to the wayside. The Act amends the current statute (as of the date of enactment) to limit the ability of a relator to bring a false

marking suit. Only a person who has suffered a competitive injury as a result of the false marking is entitled to bring such action.

Advice of Counsel

Codifying the Federal Circuit's *en banc* decision in *Seagate*, the Act provides that failure of a party to obtain an opinion of counsel when charged with infringement may not be used to prove willful infringement. However, the Act goes beyond the Federal Circuit jurisprudence by also providing that failure to obtain an opinion of counsel cannot be used to prove active inducement to infringe.

Business Method Patents

By one year after the enactment of the Act, the PTO is obligated to issue regulations to implement a transitional post-grant review process to review the validity of business method patents. Only parties charged with infringement can petition for review. The petition is limited to prior art that is described in new § 102(a). If a party chooses to invoke its rights under this provision, it would be precluded from asserting an invalidity defense based on the same prior art during a civil trial. A business method is defined as "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, except that the term does not include patents for technological inventions." The definition of "technological inventions" is left for the PTO to define in regulations to be promulgated.

Joinder of Parties

The Act provides for the joinder of parties from separate action, only if (1) any right to relief asserted against the parties is asserted jointly or severally, or arises from the same transaction relating to the making or selling of the accused product; and (2) questions of fact common to all defendants will arise in the action. This applies to actions commenced after the date of enactment. This provision will likely affect NPE filings that often name a host of unrelated entities.

Repealed Sections

The provisions applying to inventions made abroad (35 U.S.C. § 104) are repealed. Also, Statutory Invention Registrations are gone. These specific changes become effective 18 months after the enactment of the Act.

Satellite Offices

The PTO will establish three or more satellite offices within three years of the enactment of the Act. At least one satellite office will be in Detroit, Michigan.

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