

To: Our Clients and Friends

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New Patent Reform Bill Poised to Significantly Change U.S. Patent Law

The bipartisan Leahy-Smith America Invents Act of 2011 (the "Act"), approved by Congress September 8, 2011, will soon be signed into law by President Obama. The Act materially alters a long history of patent law in the United States. Among other provisions, the amendments (i) address who is entitled to a patent in the United States ("first to file" versus "first to invent"); (ii) significantly narrow who may file "false marking" lawsuits; (iii) modify and provide new procedures for challenging patents and patent applications; (iii) carve out categories of unpatentable subject matter; and (v) modify certain defenses to infringement. Several of these important changes are highlighted below.

First to File: To date, the United States patent system has been based on the "*First-to-Invent*" doctrine, meaning that the first inventor to conceive of an invention (along with diligent reduction to practice) is entitled to priority and U.S. patent protection. Other countries provide priority to the "*First-to-File*" a patent application, regardless of who first conceived or reduced an invention to practice. For the most part, the Act attempts to harmonize U.S. and international standards by adopting a *First-Inventor-to-File* standard. Accordingly, the first inventor to file a patent application will generally be awarded the patent; however, the Act still provides a one-year grace period during which an application may be filed after an inventor's own disclosure of the invention.

This is a major shift in U.S. patent law, which will take effect for applications filed 18 months after enactment. In light of this change, there will be an increased need to file applications earlier in order to secure patent protection for new inventions. For example, companies should reevaluate their invention disclosure and patent filing procedures to ensure proper and timely preservation of IP rights. Companies should also consider promptly filing additional provisional applications to capture rights in any subsequent technological improvements or developments.

False Marking Cases: The Act materially alters the false marking statute by limiting plaintiffs to the United States and persons who have suffered a competitive injury as a result of the alleged false marking. The amendment will take effect immediately and will apply to all

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cases, including the hundreds of lawsuits *pending* as of its enactment. This change should effectively eliminate the vast majority of false marking cases that have been plaguing companies and the courts in recent years.

Challenges to Patents and Applications: The Act has modified existing methods and created new procedures through which third parties may challenge pending patent applications and issued patents:

- **Pre-Issuance Submissions:** The Act expands the period during which any third party may submit prior art to the U.S. Patent and Trademark Office for consideration in connection with a pending patent application. As long as a notice of allowance has not yet issued, a third party may submit prior art any time before the later of: (i) six months from the date of first publication; or (ii) the date of the first rejection of any claim. This expanded submission process takes effect one year after enactment.
- **Derivation Proceedings:** A prior inventor may institute a “derivation proceeding” in the U.S. Patent and Trademark Office to seek to nullify a patent application filed by another on the basis that the first-to-file applicant derived the invention from the prior inventor. The current “interference proceedings” will be replaced by these derivation proceedings 18 months after enactment.
- **Post-Grant Review:** Effective one year after enactment, any third-party will have the right to petition the U.S. Patent and Trademark Office to review the validity of an issued patent within nine months of the patent’s grant. The U.S. Patent and Trademark Office may authorize a post-grant review if the information presented by the petitioner, “if not rebutted, would demonstrate that it is more likely than not that at least one of the claims challenged in the petition is unpatentable.” Importantly, patents may be challenged through this process based on *any* ground of patentability; not merely the limited grounds available in Reexaminations or *inter partes* Reviews. The petitioner, however, will be estopped from asserting any ground that the petitioner raised or reasonably could have raised during the review.
- **Inter Partes Review:** Although there are no substantive changes to *ex parte* reexamination procedures, proceedings for *inter partes* reexamination of issued patents will be replaced with an *inter partes* review procedure that will be available after the conclusion of the Post-Grant Review period. The *inter partes* Review will be similar, but includes some minor modifications, including a slightly increased threshold requirement for initiating such a proceeding. The prior art relied upon to invoke a Reexamination must provide a “reasonable likelihood that the petitioner would prevail on at least one claim,” instead of the current “substantial new question of patentability.”
- **Transitional Business Method Review:** The Act provides a limited, transitional program for parties who have been accused of infringing a business method patent to petition the U.S. Patent and Trademark Office to review the patent. The review only applies to certain financial services companies, such as companies sued for a patent directed to performing data processing in the management of a financial product. A petitioner is limited to presenting certain types of prior art in connection with the review and will be estopped

from reasserting any claim of invalidity in a civil action. This business method review program is set to expire approximately 8 years after its enactment.

In light of the increased number of options for challenging patent applications and issued patents, companies should reevaluate and adapt their patent strategies from both an offensive and defensive standpoint. For example, companies who are engaged in, or threatened with, patent infringement, or those who are simply concerned with the patents of a competitor should consider all options available for attacking the validity or patentability of such patents and applications. In particular, given the expanded ability to challenge the patentability of a pending application and the creation of the “Post-Grant Review” process, such companies may want to monitor the filings of competitors and other parties in order to take full advantage of these procedures. In addition, companies engaged in patent prosecution should reexamine the importance of performing thorough prior art searches and disclosing relevant prior art to the U.S. Patent and Trademark Office to reduce the risk of such art being successfully used by third parties in future validity challenges.

Unpatentable Subject Matter: The Act has carved out two new categories of unpatentable inventions:

- **No Patents for Tax Strategies:** Any strategy for reducing, avoiding, or deferring tax liability, whether known or unknown at the time of the alleged invention or patent application, with certain limited exclusions, shall not be patentable.
- **No Patents Covering Human Organisms:** The Act bars the patentability of any claim “directed to or encompassing a human organism,” but, the Act does not define the scope of this exclusion.

Accordingly, companies filing and prosecuting patents in these areas should reevaluate their prosecution strategy to react to these new restrictions. In particular, companies in the biological, chemical, and pharmaceutical fields should consider closely monitoring the future developments in the U.S. Patent and Trademark Office and the federal courts, which should clarify the definition and reach of the limitation on patents directed to human organisms.

Defenses to Infringement: The Act modifies certain defenses to patent infringement claims:

- **Prior Commercial Use:** The prior commercial use defense, which is a defense to an infringement claim (and which was previously limited to business method patents), will now be extended to all patents, with a few limited exceptions. The commercial use must have occurred at least one year before either the filing date of the asserted patent or the date on which the claimed invention was disclosed to the public.
- **Best Mode Requirement:** An inventor’s alleged failure to disclose to the U.S. Patent and Trademark Office, and in an issued patent, a “best mode” for carrying out a claimed invention will no longer be a defense to patent infringement.

Other Notable Changes: The Act includes numerous other changes, the more notable of which are described below:

- Supplemental Examination: Patent owners will have the right to request supplemental examination of their own issued patents. The procedure, which is available one-year after enactment allows a patent owner to make pre-litigation submissions to the U.S. Patent and Trademark Office to correct mistakes in disclosures during prosecution. Evidence disclosed by a patent owner to the U.S. Patent and Trademark Office during the supplemental examination cannot later be asserted by a defendant as evidence of inequitable conduct, provided the supplemental examination proceeding has concluded.
- Micro Entity Status: A new “micro entity” class of applicant status will be established that will reduce the U.S. Patent and Trademark Office fees of for such entities by 75 percent. Certain inventors and public institutions of higher education will be eligible for this status.
- Inventions Resulting from Federal Funding: Certain nonprofit research institutions and small businesses own patents developed at federally owned facilities. Under the new law, these entities may now keep 85 percent of the royalties and profits from such patents after certain cost deductions as opposed to their 25 percent retention under prior law.
- Advice of Counsel: The Act codifies the doctrine created by federal case law, which provides that neither the failure of an accused infringer to obtain the advice of counsel nor the failure to present such advice to a court or jury may be used to prove that the accused infringer willfully infringed a patent.
- Prioritized Examination: The Act provides a mechanism by which an applicant may request that the application be examined in expedited manner upon the payment of increased fees. In addition, the Act also requires the U.S. Patent Office to establish regulations that prioritize examination of applications for products, processes, or technologies that are important to the national economy or national competitiveness, without recovering the aggregate extra cost of providing such prioritization.

Given the extent of the changes to the patent laws, it is clear that the Act constitutes a significant overhaul of the American patent system. Although the full effect of subsequent case law, rules, and regulations following the Act remains to be seen, the Act will profoundly affect the ways that patents are filed, prosecuted, and litigated in the coming years. As a result, new approaches and strategies should be adopted in order to effectively navigate this new landscape. Indeed, companies that retool their patent strategies to address these upcoming changes will be in a much stronger position to maximize the value of their intellectual property portfolios and effectively defend against claims of patent infringement by third parties.

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