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## First-to-File or First-to-Invent? New Patent Reform Act Changes the Game

After nearly six years of proposed legislation and highly contentious debate, patent reform is finally a reality. In an 89-9 vote on September 8, the U.S. Senate passed the Leahy-Smith America Invents Act (“the Act”), thereby marking the first substantial modification to the U.S. patent system since 1952. This landmark piece of legislation fundamentally changes the U.S. patent system by awarding patents to the first inventor to file an application with the U.S. Patent and Trademark Office (USPTO). Thus, in order to stay competitive, inventors of all sizes will need to file patent applications quickly and frequently in order to stay a step ahead of their competition. Moreover, the Act provides for additional third-party input during both the pre- and post-issuance phases of the patent process. These provisions require entities to monitor published applications and newly issued patents more closely in order to take swift action in accordance with the new processes. The President has not set an enactment date but the White House expects it to come within days.

### First-to-File Provisions

Most significantly, the Act moves the U.S. to a First-Inventor-To-File (FITF) system. This change brings the U.S. system closer in line with most of the rest of the world and is a significant departure from the old First-to-Invent system. The new version of § 102 (35 U.S.C. § 102) provides that a person shall be entitled to a patent unless the claimed invention was publicly disclosed prior to the effective filing date of the patent application. Exceptions remain for public disclosures made by the inventor or by another who received the information from the inventor one year or less before the effective filing date of the patent application. Moreover, disclosures in published applications and patents are not prior art if the subject matter disclosed came directly or indirectly from the inventor. The new version of § 102 will apply to all applications with priority claims that fall 18 months after the date of enactment.

As a result of the change to FITF, the Act eliminates reference to interferences in §§ 134, 135, 146, 154 and 305 of Title 35. For applications with priority claims that fall 18 months after the date of enactment (those to which the “new” § 102 applies), “an interference” is replaced by “a derivation proceeding.” The purpose of a derivation proceeding is to determine whether the inventor named in an earlier-filed application derived the subject matter from the inventor of a later-filed application. The “Board of Patent Appeals and Interferences” will now be the “Patent Trial and Appeal Board.” Interference proceedings will continue to be available to earlier applications under the existing version of 35 U.S.C. § 135.

### Litigation Provisions

While many of the early proposals regarding patent litigation (including limits on damages and venue transfer) did not find their way into the final Act, several provisions will have an impact on future patent litigation. Effective upon enactment, only the U.S. Government has standing to sue for statutory damages resulting from false marking. While non-governmental entities may still file civil lawsuits seeking “adequate” compensation for a “competitive injury” resulting from false marking, this change effectively eliminates *qui tam* actions under 35 U.S.C. § 292. “Virtual Marking” is expressly provided for in the Act. Virtual marking consists of fixing the word “patent” (or abbreviation “pat”) to an article along with an Internet address accessible to the public free of charge that associates the patented article with the

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number of the patent. Additionally, marking with an expired patent is no longer a violation of the statute. These provisions apply to pending proceedings which may result in the dismissal of most pending false marking litigation.

Other changes relating to patent litigation include:

- Litigators no longer will be able to challenge a patent's validity on the basis of failure to disclose the "Best Mode" for practicing the invention. While the USPTO retains the ability to reject an application for lack of best mode disclosure, such rejections are rare. This change takes effect upon enactment and applies to new proceedings.
- The defense of "prior commercial use" is no longer limited to prior commercializations of business method patents. The Act expands § 273 prior user rights to apply to any technology which includes "premarketing regulatory review" for drugs and "nonprofit laboratory use" in hospitals or universities. An exception to the new § 273 prevents the defense from being raised in disputes where the patent owner is an institution of higher learning. The burden of proof for this defense is clear and convincing evidence. This change takes effect upon enactment and applies to new patents.
- Joinder of unrelated parties is more difficult under the Act. Effective with any action filed after the date of enactment, parties may not be joined as defendants (or counterclaim defendants) based solely on allegations that they have infringed the patent or patents in suit. This change significantly impacts non-practicing entities and the economies of scale associated with the tactic of naming unrelated parties to a single lawsuit.
- The Act creates new § 298 which addresses the much-litigated topic of opinions of counsel. Section 298 provides that the failure of an accused infringer to obtain an opinion from counsel, or to produce such an opinion during litigation, cannot be used to prove willful infringement or intent to induce infringement. This section takes effect one year from enactment and applies only to patents granted after that date. While the Act codifies the U.S. Court of Appeals for the Federal Circuit's *Seagate* opinion, it does not diminish the value of obtaining an exculpatory opinion of counsel. When deciding issues of enhanced damages, courts will continue to evaluate the steps an accused infringer took to investigate the alleged infringing activity. Thus, seeking advice of counsel and developing a comprehensive strategy (which may include an opinion) remains the best strategy when confronted with a potential infringement issue.

## Post-Grant Review Provisions

Under the Act's new Chapter 32, a post-grant review period of nine months is available for challenging a patent on any grounds. During this nine-month period, the USPTO may grant a review based upon a showing that it is more likely than not that at least one of the challenged claims is unpatentable. Review also may be granted on the grounds that the petition for review raises a novel or unsettled legal question that is important to other patents and/or applications. The petitioner's burden of proof will be a preponderance of the evidence, and appeals are to the Federal Circuit only. Chapter 32 takes effect one year from enactment for certain business method patents. For all other types of patents, Chapter 32 applies only to applications with priority claims that fall 18 months after the date of enactment.

New Chapter 31 of the Act establishes procedures for challenging a patent after the expiration of the nine-month post-grant review period (or sooner upon completion of a Chapter 32 post-grant review). Patents may be challenged under Chapter 31 only on the basis of patents or printed publications. The USPTO may grant review upon a showing that the petitioner has a reasonable likelihood in prevailing that at least one of the challenged claims is patentable. The ultimate burden of proof again is preponderance of the evidence, and appeals are to the Federal Circuit. Chapter 31 takes effect one year after enactment but is available to challenge patents issued before the effective date.

The Act also changes the standard for granting reexamination requests. The current standard of “a substantial new question of patentability” will change to “a reasonable likelihood that the requestor would prevail” with respect to at least one of the challenged claims. This change takes effect immediately upon enactment and is applicable to all new requests for reexamination filed after that date. Moreover, any appeal from a decision of the Patent Trial and Appeal Board may be appealed only to the Federal Circuit and not a district court. This change also takes effect immediately upon enactment and applies to all pending and subsequently filed ex parte reexamination proceedings.

## Fee Provisions

Despite last-minute attempts by some in Congress, provisions prohibiting the diversion of fees paid to the USPTO to other areas of government are not included in the Act. However, there are several fee provisions in the Act:

- Effective 10 days after enactment, a 15% surcharge will be added to all patent-related fees. This includes patent maintenance fees.
- Effective 10 days after enactment, the USPTO will be authorized to proceed with the “Track I” program for fee-based prioritized examination. The approved fee for prioritized examination is \$4,800 for large entities and \$2,400 for small entities.
- The Act creates a new category of entity to further distinguish between sizes of entities. Generally, the “micro-entity” is defined as individuals and small businesses that qualify as a small entity, filed less than four applications in the preceding year, and earned less than three times the median household income in the preceding year.
- The Act sets fees as of October 1, 2011, and gives the USPTO the authority to set its fees thereafter subject to certain limitations.

## Conclusion

This Legal Alert briefly addresses some of the major changes to the U.S. patent system resulting from the passage of the Leahy-Smith America Invents Act. It is impossible to summarize everything of potential importance in the Act in a Legal Alert. The Act contains many provisions not discussed herein, for example, which will impact both patent prosecution and enforcement. It remains to be seen how the USPTO and the courts will sort out the finer points associated with implementation of the Act’s provisions.



*If you have any questions about this Legal Alert, please feel free to contact any of the attorneys listed below or the Sutherland attorney with whom you regularly work.*

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