

PATENT LAW

SWEEPING PATENT LAW REFORM ENACTED: HOW WILL THIS CHANGE PATENT LITIGATION?

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September 2011

The America Invents Act (HR 1249) was enacted into law on Friday September 16, 2011, marking a significant change to U.S. patent law. The new laws will surely change our strategies for obtaining, protecting, and enforcing patent rights. Some changes take effect immediately, while others phase in at various times over the next several years. You should begin planning now for the upcoming changes and determine how this will alter the way you do business even though many important features are 12-18 months away.

Below is an overview of some of the more notable changes that will directly or indirectly influence patent litigation planning and strategy:

IMMEDIATE CHANGES (Effective September 16, 2011)

- **Joinder of accused infringers gets tougher:** Under the previous law, a patent owner could join two independent infringers based solely on the accused infringing activity, regardless of the relationship between the defendants. Effective immediately, parties accused of infringement can only be joined in a law suit, or have their actions consolidated for trial, if the rights are asserted jointly and severally against the parties, or the rights asserted against them arose out of the same "transaction, occurrence, or series of transactions or occurrences relating to" qualifying activity of the same accused product or process, and "questions of fact common to all defendants or counterclaim defendants will arise" in the law suit. HR 1249, sec. 19(d) (adding new 35 USC § 299). Defendants can no longer be joined or their actions consolidated based solely on allegations that they have each infringed the asserted patent or patents. Thus, patent owners can no longer file law suits targeting a broad sweeping list of accused infringers in search of mass settlement opportunities without meeting this higher threshold of related activity.
- **Elimination of the "best mode" defense:** One long-standing requirement for obtaining a patent in the U.S. is that the patent disclose the "best mode" known to the inventor for practicing his or her invention at the time the patent application is filed. In subsequent patent infringement litigation, a defendant could challenge the patent's validity on the grounds that the best mode was known but insufficiently disclosed in the patent. While not often invoked, in the past the "best mode" defense could have been a potent weapon in a defendant's arsenal. Now, the "best mode" requirement will remain as a requirement for obtaining patents but the defense in litigation will be abolished. HR 1249, sec. 15 (amending 35 USC § 282). While not welcome news to future patent infringement defendants, abolition of this defense should be well-received by foreign inventors whose U.S. patent applications originate overseas in countries where there is no

corresponding "best mode" requirement. Such foreign-originated applications may unwittingly fail to disclose the "best mode." This law takes effect immediately in all proceedings moving forward.

- **Prior commercial use defense to infringement:** The "business method" defense has been expanded. This defense will apply to any patent issued on or after the date of enactment. Under prior law, a personal defense was available to accused infringers based on a business method patent when the accused infringer had reduced to practice and commercially used the accused subject matter at least one year before the effective filing date of the asserted patent. The new law expands this defense to include accused subject matter "consisting of a process, machine, manufacture or composition of matter used in manufacturing or other commercial process," including "internal commercial use" by the accused infringer. HR 1249, sec. 5 (amending 35 USC § 273). Any party planning to rely on this defense, however, should be aware that there are several limits to its scope. For example, the defense is not generally transferable and only the person who had performed or directed the performance of the commercial use can assert this defense. Nor can the defense be asserted if it was derived from the actual inventor. Additional geographical and other limits to the defense apply based on the nature of the qualifying prior commercial use. Attorney fees can be granted against an infringer if the defense was raised and it is later determined the defendant had failed to demonstrate a reasonable basis for the assertion.
- **Limits on "false marking and "virtual marking":** One recent hotbed of patent litigation has been "false marking." In the past, anyone could file suit against a patent owner for falsely marking its products regardless of whether the particular plaintiff experienced a financial injury as a result of the falsely marked product. Now, only the U.S. government and those who have suffered a competitive injury as a result of the false marking violation may file suit. HR 1249, sec. 16 (amending 35 USC § 292). Additionally, the marking of a product with an expired patent that once covered the product is no longer a marking violation. These changes will surely reduce the flurry of law suits filed for false marking as the law takes effect immediately and applies to all cases pending or commenced from the date of enactment. To further enhance a patent owner's ability to properly mark and provide adequate notice to the public, a "virtual marking" option is now available. The prior law encouraged patented products to be physically marked with the numbers of applicable patents. On the other hand, the old law would penalize those who did not remove those markings when the patent expired. Because the patent grant is for 20 years from the earliest filing date, it was easy for manufacturers to lose sight of the connection between their products and patents, and then be subject to monetary

liability for “false marking.” The new law allows the patentees to “virtually mark” their products. No longer will physical marking be a requirement. Instead, patentees can provide markings that direct the public to free websites where patented products are associated with the numbers of applicable patents. It will thus be possible to provide a single, generic type of marking for all patented products, and to easily manage marking electronically.

- **Subject matter deemed nonpatentable:** Effective immediately, “any strategy for reducing, avoiding or deferring tax liability” is deemed “insufficient to distinguish a claimed invention from the prior art,” HR 1249, sec. 14, and no claim may issue for any invention “directed to or encompassing” a human organism. H.R. 1249, sec. 33. Both changes apply to patent applications pending or filed on or after the date of enactment, and the tax strategies exclusion additionally applies to patents issued on or after that date.
- **Venue change for certain challenges to USPTO actions:** Under the prior statute, certain challenges to the USPTO (e.g., denial of a decision by the Patent Trial and Appeal Board, formerly the Board of Patent Appeals and Interferences) could be brought before a federal district court. The statute mandated that the proper venue for such district court actions was the U.S. District Court for the District of Columbia. These actions are still available, but, effective immediately, the proper venue for them is the District Court for the Eastern District of Virginia. HR 1249, sec. 9 (amending 35 USC §§ 32, 145, 146, 154(b)(4)(A) and 293.) The Eastern District is widely renowned as a “rocket docket” as a result of the speed with which cases there move to trial (less than a year on average). Thus, for parties seeking to take advantage of the ability to present additional evidence in a district court proceeding, rather than proceeding directly to an appeal before the Court of Appeals for the Federal Circuit, the Eastern District of Virginia will have the additional advantage of a speedy resolution.
- **New *inter partes* reexamination standard:** For parties that pursue reexamination as part of a defensive strategy, the standard for institution of an *inter partes* reexamination has now changed. Previously, reexamination was only appropriate where the requesting party presented a substantial new question of patentability. For *inter partes* requests filed on or after the date of enactment, reexamination is available based on a showing that there is a “reasonable likelihood that the requester would prevail with respect to at least 1 of the claims challenged in the request.” HR 1249, sec. 6(c)(3) (amending 35 USC §§ 312-314 as of the date of enactment).

12-MONTH CHANGES (Effective September 16, 2012)

- **Failure to obtain opinion of counsel:** The new law now expressly provides that, as of the one-year anniversary of enactment, the failure to obtain advice from your lawyer regarding potential infringement cannot be used to show willful infringement or an intent to induce infringement. HR 1249, sec. 17 (adding new 35 USC § 298). Notably, contributory infringement, which also requires a showing of intent to infringe, is not expressly mentioned. Although this provision provides a minor safe haven for infringers

who failed to obtain advice, it is still recommended to seek advice of counsel when a question of potential infringement is raised. An opinion of counsel can be a cost-effective tool for making informed business decisions regarding potential products as well as a precautionary measure to prevent or at least mitigate liability for a current product.

- **Post-Grant Review:** Presently, the validity of issued patents can be challenged in litigation, as well as reexamination proceedings in the USPTO. In 12 months, the U.S. will adopt a European-style post-grant review process as a further vehicle to challenge validity. Under these proceedings, it will be possible to challenge a patent within 9 months of its grant (or issuance in the case of a reissue patent). HR 1249, sec. 6 (adding new 35 USC § 321). This can be a powerful and cost-effective tool for pre-litigation challenges of validity. Some key features of this process include: the owner’s right to challenge the sufficiency of a request for a post-grant review; barring of the review if a civil action has been commenced challenging the validity of the patent; prevention of a similar challenge in subsequent civil or ITC proceedings; and patentee’s limited ability to amend its claims during review. Both parties can file a motion to amend the claims if a settlement has been reached.
- **More flexible citation of prior art:** Preissuance submissions of prior art by third parties will be easier. Generally speaking, the patent examination process is a two-way street involving the applicant and the USPTO. Previously, a third party seeking to be involved in the process was severely limited in terms of timing and the nature of material that could be submitted to the USPTO. The ability to cite prior art to the USPTO will be expanded under the new law to allow, at any time, submissions of prior art as well as relevant statements of the patent owner made during USPTO or federal court proceedings. HR 1249, sec. 6 (amending 35 USC § 301).
- **Supplemental examination:** Under a procedure yet to be established in the USPTO’s rule-making process, patentees will be able to request supplemental examination of their own patents “to consider, reconsider or correct information believed to be relevant to the patent...” The result of a supplemental examination is that “a patent shall not be held unenforceable on the basis of conduct relating to information that had not been considered, was inadequately considered, or was incorrect in a prior examination of the patent if the information was considered, reconsidered, or corrected during a supplemental examination of the patent.” HR 1249, sec. 12 (adding new 35 USC § 257).

This new process effectively allows patentees to substantially reduce their exposure to charges of inequitable conduct during

subsequent litigation if they behave proactively. If a law suit has commenced, the supplemental examination process is not available to protect against unenforceability. Accordingly, this tool must be used prior to filing of a suit.

This process further reduces the substantial up-front costs associated with request for reexamination proceedings. Previously, a significant study was required to determine if one or more references should be considered by the USPTO by way of a reexamination. These requests required significant time and costs to evaluate the references and prepare arguments to submit to the USPTO. Regardless of the effort expended, the USPTO could deny the request and conclude that the submitted references were “cumulative” of what had already been considered. Now, the burden has shifted to the USPTO to determine if the references submitted for supplemental examination warrant a reconsideration of the patent.

- **Transitional program for covered financial products:** Within a year, the USPTO must establish a post-grant review process to test the validity of business method patents related to financial products. HR 1249, sec. 18. An accused infringer that is sued will be allowed to file for a temporary stay on litigation to test the validity of the patent in question. It will be important to monitor the progress of this new transitional program, especially for businesses at risk of or currently involved in litigation related to financial products.
- **Elimination of “without deceptive intent” when making mistakes:** The current law requires a statement that a mistake was made “without deceptive intent” when asking the USPTO to correct technical features of a patent such as adding or removing an inventor who mistakenly was included on the patent. This requirement has been eliminated in various other sections of the law making it easier for patent owners to make technical corrections. HR 1249, sec. 20 (amending Title 35, United States Code). Similar to the supplemental examination procedure, these changes appear to further limit the types of actions that can support an inequitable conduct claim during litigation.

18 MONTH CHANGE (Effective March 16, 2013)

- **First-to-file patent priority:** In 18 months, the U.S. will move from a “first-to-invent” to a “first-to-file” system. Historically, patent grants in the U.S. have gone to the first to invent the claimed subject matter. By contrast, the practice outside of the U.S. is to award patents to the first inventor to file his or her patent application. In an effort at harmonizing U.S. practice with the rest of the world, the U.S. will become a “first-to-file” country, meaning that the first to file a patent application for the same invention will be the one entitled to a patent (if the invention is otherwise patentable). HR 1249, sec. 3 (amending 35 USC §§ 100, 102). Applying to all patents and applications filed after the 18-month effective date, this change will expand the body of prior art that could be asserted against a patent during litigation. Interference proceedings, litigation-style actions before the USPTO to determine who was the first to invent, will be eliminated. Instead,

“derivation proceedings,” whereby an inventor can challenge an earlier-filed application if he can prove that the named inventors in the earlier application derived their invention from the actual inventor, will be available for patents and applications filed after the March 16, 2013 effective date.

- **“Absolute novelty” provisions:** The revised novelty provisions of Section 102 restructure the prior language to create an absolute bar to patentability if the claimed invention of a patent application was “patented, described in a printed publication, or in public use, on sale, or otherwise available to the public” anywhere in the world before the patent application’s effective filing date. HR 1249, sec. 3 (amending 35 USC § 102). This is a marked change from the old Section 102, which limited foreign prior art to patents and printed publications. Thus, once the new absolute novelty provision takes effect, a wider range of prior art will be available for those challenging the validity of an asserted patent during litigation or re-examination. For those familiar with the one-year grace period for filing patent applications in the U.S., it is still there, albeit in a different form. Now, the grace period will apply to applications made within a year of “disclosures” made anywhere by the inventor or others who obtained the disclosed information from him or her. Interestingly, a further aspect of the one-year grace period provides that any third party disclosure or patent application for the same subject invention within that one-year grace period will not act as a bar to patent if, within the grace period, the invention was earlier disclosed by the inventor or someone who obtained it from him or her.

WHAT CAN YOU DO NOW TO BE READY?

1. For starters, determine if any of the immediate changes will directly impact your current litigation cases or potential cases. Have you been joined in a law suit for infringement or do you anticipate joining two infringers in a potential litigation? Do you have a possible defense outlined by the business method defense expansion? Do you anticipate being involved in a false marking suit which can be corrected by virtual marking? Do you anticipate a best-mode challenge in a potential infringement case?
2. The new post-grant review process provides another avenue to challenge patents, but it demands an up-front familiarity with the law in order to understand how it fits into a larger strategy of defending against a competitor’s patents.
3. As the USPTO develops its procedures for supplemental examination, proactive patent owners will want to work with counsel to examine their existing patent portfolios to determine whether the process can be used to strengthen those patents. The new system will provide a tool for patent owners to review their portfolios and related documents prior to commencement



of a litigation and to submit references for consideration before encountering a challenge of validity for inequitable conduct. You should consider implementing a best practices program for reviewing your own patents and any documents the company possesses that were not submitted during prosecution but perhaps should have been submitted. This can be part of a general IP audit or specific to a particular patent anticipated to be the subject of litigation. Once those documents are in the hands of the opposition through discovery, it will be too late to take advantage of the new procedure.

4. The “virtual marking” provisions certainly encourage a transition to the new system in order to avoid liability for “false marking,” to say nothing of the cost-savings many manufacturers will realize in not having to provide and update the notice of particular patent numbers on their products.
5. Businesses may want to adopt a more active approach to monitoring a competitor’s patent filings. With this in mind, patentees may consider refraining from listing its name as the assignee on the cover of a patent or published patent application, thus making it more difficult for competitors to monitor activity and asserting these challenges.
6. These and other important issues will soon face innovators as the law is implemented over the next few years. Make sure you are ready to maximize the value of your intellectual property by building your strategy around these new laws.



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