



US Patent Law Reform 2011

By John Richards^[1]

Background

The final form of US Patent Law reform legislation (in the form of the “America Invents Act”) has finally been enacted. On September 16, 2011 President Obama signed Bill HR 1249 which had previously been passed by The House of Representatives and the Senate.

The main features of the new law will for the most part will take effect one year after enactment. However, a few provisions come into effect immediately and others only eighteen months after enactment. The date on which a provision comes into effect is noted at the end of each of the following sections. If no date is indicated, the date on which the provision becomes effective is one year from enactment.

The main provisions of the new law are as follows:

1. Change in Novelty/Statutory Bar Provisions (Section 3)

Although these changes have been hailed as adopting a first-to-file standard, the reality is not that simple. Both the Senate and the House bills make the same sweeping changes to 35 USC 102 to provide:

(A) Prior patenting, printed publication, public use, placing on sale or “otherwise” making available to the public anywhere in the world more than one year before the effective filing date will be a bar. The “effective filing date” is the date of filing of an application containing a claim to the invention or a priority date afforded under any of sections 119 (therefore including priority claims made under the Paris Convention), 120, 121, 365(a), (b) or (c).

(B) Any of the above acts within one year prior to the effective filing date will also be a bar unless the act was by or an inventor, joint inventor or others obtaining the disclosed subject matter directly or indirectly from the inventor or joint inventor or was by a third party but followed such a disclosure by or deriving from the inventor or joint inventor.

(C) Furthermore the contents of any earlier-filed but later-published application (apparently including a PCT application designating the US irrespective of the language of publication) or patent will also be a bar as of its priority date unless any of the exceptions in (B) apply or the prior application was commonly owned or subject to an obligation to assign to common ownership no later than the effective filing date. (“Common ownership” includes being subject to a joint research agreement similar to the current provisions of CREATE.)

As a consequence of these changes, the provisions currently requiring proof of invention within the United States to establish an effective date of invention and the possibility of registering an invention under the statutory invention scheme are repealed.

Current interference proceedings as provided for by 35 USC 135 are “derivation proceedings” before the Patent Trial and Appeal Board (which will replace the current Board of Patent Appeals and Interferences) to enable a determination to be made as to whether a prior applicant had derived the subject matter in question from the patent applicant. Such proceedings will have to be commenced within one year of the publication of a claim setting out the allegedly derived invention. It will be permissible for contesting parties to settle issues of derivation by agreement or submit them to arbitration. Agreements shall be accepted by the Board unless inconsistent with the evidence of record and at the request of “a party” to the proceeding they will be kept “business confidential” and disclosed only to government agencies or others on a showing of good cause. Arbitration awards will be dispositive between the parties but unenforceable until notice is given to the USPTO. Civil actions with respect to determinations of the Board in derivation proceedings are possible in the same manner as at present in interference proceedings.



35 USC 291 is amended to replace the current provision relating to interfering patents with one that provides that the owner of a patent may bring an action against the owner of an allegedly derived patent under similar conditions.

This section will take effect 18 months after enactment.

Additional Comments:

1. The addition of otherwise "making available to the public" to the grounds on which novelty may be destroyed on its face adopts a European standard. It remains to be seen how this will be applied in practice. Earlier bills attempted to define this in terms of reasonable accessibility etc. No such attempt is made in either of the present bills.
2. The ability to establish a publication date prior to a third party independent disclosure and then file within one year of one's own publication raises interesting issues. This feature has been referred to by some as creating a "first to publish as long as you file within a year" system rather than a true first to file system. It does, however raise possible problems if what is published by someone else after one's own first publication is similar to but different from the contents of one's own prior publication.
3. Prior proposals for amendment dropped the "on sale" bar. The present bills make the bar a world-wide one. This could be an important change for applicants from outside the United States because the bar does not require an actual sale or that the nature of the invention was disclosed in the sale negotiations. All that is required for the bar to apply is that before the critical date (that is one year prior to the effective filing date) there had been an offer for sale that could have been accepted to create a sale agreement and that the invention had been developed to the point where it is ready for patenting. A recent case has held that it was not necessary that the invention was ready for patenting at the time of the offer, just that both requirements were met before the critical date.
4. The changes with respect to the effective date of earlier-filed but later-published applications as prior art to make them effective not only from a U.S. filing date but also from a foreign priority date will finally end the Hilmer doctrine.

2. Assignee Filing, Oaths and Declarations (Section 4)

35 USC 118 is amended to provide for filing in the name of an assignee or one to whom the inventor is under an obligation to assign the invention. Additionally, a person who otherwise shows sufficient proprietary interest in the matter may make an application "on behalf of and as agent for the inventor", but only "where appropriate to preserve the rights of the parties". Where this is done, the patent will issue to the real party in interest.

The oath and declaration requirements of 35 USC 115 are also simplified to permit statements currently required in the oath or declaration to be incorporated into a "substitute statement" or an assignment document filed at the USPTO instead, as long as the statements are accompanied by an acknowledgment of the penalties accompanying any false statement set out in 18 USC 1001 (specifically a fine or imprisonment for up to five years or both). Required statements are that the application was made or authorized by the affiant or declarant and that he or she believes him or herself to be the inventor or a joint inventor of the invention claimed. The Director of the USPTO is given the power to provide for additional required statements. The amendments also specifically provide that additional documents do not normally have to be filed in continuing applications.

Additional Comment:

The reduction in the number of papers that will need to be signed is a useful improvement.

3. Increased Damages (Section 17)

The plaintiff will be prevented from relying on absence of counsel's opinion as evidence of willfulness, in effect a codification of current case law.



4. False marking (Section 16(b))

After enactment, only the United States may sue for a penalty for false marking provisions as they previously existed, thereby eliminating the provision that anyone could sue to enforce the law that bars false marking of a product as being patented if this was done to deceive the public and the person bringing suit shared any penalty imposed with the government. The new law does, however, add a provision whereby a person who has suffered competitive injury as a result of false marking of a product as being patented may sue for damages adequate to compensate for the injury caused.

This section will take effect upon the date of enactment and will apply to any case pending or commenced on or after enactment.

5. Prior Inventor Defense/Prior Commercial User Rights (Section 5(a))

The "first inventor" defense available under 35 USC 273 providing for defense to an action for infringement of a business method patent is amended to create a more general prior user right for those who used the "subject matter" on which they are being sued for infringement commercially more than one year prior to the earlier of the effective filing date of the application giving rise to the patent under which they are being sued or the date of first disclosure in a manner that qualifies for an exception from being treated as prior art as noted above. Commercial use is deemed to include the period during which an application for marketing approval is pending before a regulatory body for products that are subject to such premarketing review. The defense may be transferred only with the business or part of the business to which it pertains and if such transfer occurs, it is limited in application to "sites" where the subject matter was in use before the later of the effective filing date of the claimed invention and the date of the transfer.

The defense may not be asserted if, at the time the invention was made, it was owned or subject to an obligation to assign it to either an institution of higher education or "a technology transfer organization whose primary purpose is to facilitate the commercialization of technologies developed by one or more such institutions of higher education". This exception only applies, however, if the activities required to reduce the invention to practice are such that they could have been undertaken using funds provided by the federal government.

6. Virtual Marking (Section 16(a))

The marking requirements of 35 USC 287 will henceforth be able to be met by placing information on the patented article that uses the word "patent" or "pat" and directs the public to a free internet site that associates the patented article with the number of the patent.

This section will take effect upon the date of enactment and will apply to any case pending, or commenced on or after enactment.

7. Citation of Prior Art (Sections 6(g) and 8)

35 USC 122 is amended so that prior to grant, the ability of third parties to submit prior art is amended to permit such submissions up to the earlier of at least six months after publication or the date of allowance.

35 USC 301 is also amended to expand upon the information that may be placed on record in the USPTO for any patent to include written statements made by the patent owner in federal court or USPTO proceedings as to the position taken by the patent owner as to the meaning of one or more claims. Statements made in this way will be able to be used only for purposes of claim interpretation in re-examination, inter partes review or post grant review proceedings.

8. Post Grant Administrative Proceedings

Substantial changes are made in the ways in which a patent may be reviewed in administrative proceedings after grant. *Ex parte* re-examination remains unchanged except that the USPTO Director can institute reexamination on his



own initiative on the basis of prior art cited during another reexamination proceeding. *Inter partes* re-examination is replaced by *inter partes* review in which, among other changes the threshold question is changed from “does the request raise a substantial new question of patentability” to “does the request show that there is a reasonable likelihood that the requester would prevail with respect to” at least one claim. Additionally a new proceeding called “post grant review” is introduced to allow more broadly based challenges to a patent, but only during the period of nine months after grant or reissue. In this case, the threshold question is whether it is more likely than not that at least one claim will be found to be invalid. New provisions are added that may be used by the patent owner to effect amendment by way of Supplemental Examination, following which, if the director believes a substantial new question of patentability is raised, re-examination may be ordered. Finally, a special form of post grant review is to be instituted for business method patents if the challenger has been sued for or charged with infringement of the patent.

8A. *Inter Partes* Review (Section 6(a))

Inter partes review replaces the current *inter partes* re-examination provisions of 35 USC 311-319

As with the current *inter partes* reexamination, issues that can be considered are limited to novelty and obviousness over prior patents and publications. Additionally there will still be a threshold issue to be addressed before review will be ordered. However, instead of having to show a substantial new question of patentability as required under the present law, the new threshold question will be whether the petitioner has shown a that there is a reasonable likelihood that the petitioner will prevail on at least one claim. There is to be no change from the present law that a party that has failed to prove that a claim should not have been granted will be estopped from asserting that the claim that has been challenged in review proceeding is invalid on any ground that the petitioner raised or reasonably could have raised during the *inter partes* review.

There are, however, differences from the current *inter partes* reexamination in addition to a change of name and threshold question.

In order to avoid conflict with the new post grant review proceedings, *inter partes* review will only be able to be requested more than nine months after the grant or reissue of the patent being challenged or if post grant review has been requested after termination of such post grant review. Additionally, *inter partes* reviews will be carried out by the Patent Trial and Appeal Board.

Inter partes review will be able to be instituted by anyone other than the patent owner, although the real party in interest will have to be identified. The patent owner will have the right to respond to any such petitions. *inter partes* review may then be authorized only if the Director determines that there is a reasonable likelihood that the petitioner would succeed on at least one of the challenged claims. For the most part the details of the procedure to be followed will be left to regulations. The bills do, however, provide that unless otherwise necessary in the interest of justice, discovery will be limited to depositions of witnesses who have submitted affidavits or declarations and that the patent owner will have one opportunity to file an amendment to cancel challenged patent claims and replace them with a reasonable number of substitute claims. It is further required that the challenger be provided with at least one opportunity with at least one opportunity to file written comments and that each party has the right to an oral hearing. The challenger will bear the burden of proving unpatentability of challenged claims by a preponderance of the evidence.

Inter partes review proceedings can be settled by agreement between the parties up to the time at which a decision has been made by the board. If this is done, the agreement will have to be in writing and a copy filed with the USPTO. At the request of “a party” to the proceeding such agreements will be kept “business confidential” and disclosed only to government agencies or others on a showing of good cause.

Appeals lie only to the Court of Appeals for the Federal Circuit. The bill also includes provisions governing the relation of such proceedings with other proceedings or actions including a bar on instituting or maintaining *inter partes* review if petitioner or real party in interest has filed a civil action challenging the validity of a claim of the patent.

The bill provides for the possible “graduated implementation” of this provision.

Additional Comment:



It seems that these proposals are attempts at compromise wherein the term within which post grant review proceedings can be brought has been restricted and no second window of opportunity for bringing post grant actions provided for as had been the case, and a source of controversy, in earlier proposals for reform.

8B. Post Grant Review (Section 6(d))

The amended law adds new sections 321-329 to 35 USC. The main features are as follows:

- a) Proceedings may be instituted only within a period of nine months from the grant of a patent or its re-issue. Challenges to claims of reissued patents that were present in or narrower than the original claims are only permitted within the time period for challenging the original patent.
- b) Post grant review may be sought on any ground of invalidity that can be raised as a defense in an infringement action.
- c) It is explicit that the challenger bears the burden of proving its case by a preponderance of the evidence.
- d) If a court in a civil action finds that the claims in question were not invalid, post grant review actions cannot be brought or continued against such a claim on any ground that the party or its privies raised or could have raised in the civil action.
- e) Petitions for post grant review will be subject to an initial review by the Director to determine whether “the information presented ... 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”. Review may also proceed if the initial determination shows that the petition raises a novel or unsettled legal question that is important to other patents or patent applications. There is to be no review of determinations made on this issue.
- f) Discovery is to be permitted, subject to rules made by the Director of the USPTO, but limited to “evidence directly related to factual assertions advanced by either party”.
- g) Amendments will be permitted during post grant review proceedings only to cancel a challenged claim, replace a challenged claim or to amend other parts of the patent.
- h) Final decisions of the Patent Trial and Appeal Board are to be made within one year of the date of institution of the proceeding, subject to a possible six months extension “for good cause”.
- i) At any time before the board’s decision, the parties may settle. However, they must file full details of the settlement which will be available to “government agencies on written request or any person showing good cause” but otherwise can be kept from public view.
- j) Decisions of the Board are to be appealable to the Federal Circuit by either party.
- k) Decisions in favor of the patent owner have an estoppel effect in other proceedings for “any ground that the petitioner raised or reasonably could have raised” during the post grant review. However, settlement agreements will have no estoppel effect.

8C. Supplemental Examination (Section 10)

Under this provision, a patent owner will be able to request supplemental examination of its patent “to consider, reconsider, or correct information believed to be relevant to the patent”. The purpose is to give patent owners some means for dealing with situations in which a patent might otherwise be unenforceable as a result of mis-steps during prosecution. The bills provide that, subject to certain exceptions where steps have already been taken in or preparatory to litigation, “a patent shall not be held unenforceable under section 282 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". Based on the request, the Director may order re-examination of the patent using a slightly modified procedure from that normally used in ex parte re-examination. In the case of re-examination following supplemental examination, the issues that may be considered are not limited to novelty or obviousness over patents or publications as is the case of other reexaminations.

It is specifically provided that this change does not change the power of court to impose sanctions based on criminal or antitrust laws or the authority of the Director to investigate and sanction attorney misconduct.

Additional Comment:

35 USC 282 deals with validity not unenforceability.

8D. Special Post Grant Review for Business Method Patents (Section 18)

The new law provides for a special, but temporary, provision for reviewing business method patents which will sunset after eight years.

Under this provision a special procedure applies to business method patents that claim "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 for patents for technological inventions. The Director is charged with issuing regulations to define a "technological invention". In general the same provisions apply as to post grant review as described above, except that there is no limitation on the period following grant within which review can be sought. It is, however, a requirement that the party challenging the patent or his real party in interest has "been sued for infringement of the patent or been charged with infringement under that patent".

9. USPTO Fee-Setting Authority (Sections 9 and 10)

Under the new law, the Director of the United States Patent and Trademark Office is given the power to set all fees for patent and trademark matters so that in aggregate the patent fees cover the costs of the patent operations and the trademark fees cover the costs of the trademark operations. Previously, much of this power lay with Congress, with fees being specified in 35 USC 41 or 35 USC 376. To exercise this new power, the Director must publish proposals for new fees and consider public comments on them before putting the new fees into effect.

For an interim period commencing 10 days after enactment and remaining in effect until the new fee-setting procedure has been completed, a 15% surcharge is imposed on most fees. Since the President signed the bill on September 16, 2011, the new fees come into effect on **Monday, September 26, 2011**.

Section 11(g) of the new law provides for the creation of a new category of patent applicant, a "micro-entity". A "micro entity" is a small entity that has not been named on four or more previous U.S. non-provisional applications, did not in the previous year have a gross income more than three times the most recently reported median household income and has not assigned etc. rights to an entity having a greater income. Micro entities will be entitled to a 75% reduction in fees.

In Section 11(h), the amendments also provide a fee for prioritization of examination with the fee initially set at \$4,800 with small entities entitled to a 50% reduction in fees. Until such time as the Director promulgates regulations relating to prioritized examination, prioritization will be permitted only for applications containing or amended to claim no more than 30 claims of which no more than four may be independent.

These sections will take effect upon the date of enactment (other than the 15% fee surcharge provision which has a 10 day delay).

10. Best Mode Requirement (Section 15)



Failure to disclose the best mode is removed from the list of possible invalidity defenses to an infringement action by providing that this is “not a basis on which any claim of a patent may be canceled or held invalid or otherwise unenforceable”.

This section will take effect upon the date of enactment.

11. Exclusions from Patent Protection

For purposes of novelty and obviousness “any strategy for reducing, avoiding or deferring tax liability, whether known or unknown at the time of the invention or application for patent shall be deemed insufficient to differentiate a claimed invention from the prior art. The new law contains a “rule of construction” to the effect that “Nothing in this section shall be construed to imply that other business methods are patentable or that other business method patents are valid.” This provision does not apply to inventions relating to tax preparation etc. or to inventions relating to financial management to the extent that they are severable from any tax strategy.

This provision will take effect upon the date of enactment and have retroactive effect on any applications pending on that date.

Section 33 also prohibits the grant of patent claims “directed to or encompassing” a human organism.

This provision will take effect upon the date of enactment and have retroactive effect on any applications pending on that date.

12. Satellite Offices (Section 23)

“Subject to available resources” the USPTO is called upon to open three or more satellite offices within three years of enactment of the new law. The criteria for selecting the locations of these satellite offices are set out.

The satellite office currently in the process of starting operations in Detroit is named the “Elijah J. McCoy United States Patent and Trademark Office”.

13. Priority Examination for Important Technologies (Section 25)

Applicants for applications for products, processes or technologies “that are important to the national economy or national competitiveness” will be able to request prioritization of their applications “subject to any conditions prescribed by the Director”.

14. Miscellaneous

Section 9 amends both 35 USC and the Trademark Act to provide that certain actions against the Patent and Trademark Office which hitherto had to be brought in the district court of the District of Columbia must now be brought in the district court for the Eastern District of Virginia, where the Patent and Trademark Office is now located. This section will take effect upon the date of enactment.

Section 28 provides for a Patent Ombudsman to assist small business concerns

Section 7 provides for the replacement of the present Board of Patent Appeals and Interferences by a Patent Trial and Appeal Board that will have jurisdiction over appeals during examination and re-examination, and conduct derivation proceedings and inter parties and post grant review proceedings. The board is required to sit in panels of at least three members.

Section 13 changes the percentage of royalty income that must be paid to the government under 35 USC 202 from 75% to 15% when the royalty earned by a government owned contractor operated facility exceeds 5%.



Section 13 will take effect upon the date of enactment.

Sections 20(a) and 20(f) amend 35 USC 116 and 35 USC 256 relating to correction of the names of inventors in patent applications and granted patents by removing the requirement that in order for correction to be permitted, the error must have occurred without deceptive intent. Similar changes are made with respect to the provisions of 35 USC 184 and 185 relating to foreign filing licenses. (Sections 20 (b) and (c).

Section 22 contains provisions relating to funding of the USPTO providing that any fees earned by the USPTO in a given year that are in excess of its expenses in that year are to be deposited in a special fund in the US Treasury which is designated for subsequent use by the USPTO. Use of such monies is, however, subject to annual appropriations acts.

Section 37 provides that the 60 day term from the FDA's grant of marketing approval within which an application for patent term extension must be filed commences on the next business day if the FDA issues its approval after 4:30 pm.

[1] John Richards is a partner in the New York Office of Ladas & Parry.