

The America Invents Act: An Overview of Patent Reform

On Friday, September 16, 2011, President Obama signed into law the Leahy-Smith America Invents Act (the Act) after more than six years of legislative efforts to reform the existing patent laws. The Act represents the most comprehensive and substantial patent legislation since the Patent Act of 1952. The Act changes significantly the processes for both obtaining and litigating patents. Of particular note for patent prosecutors, the Act changes the United States to a “first-to-file” from a “first-to-invent” patent system, eliminates interference proceedings, and expands the scope of prior art under the statute. Entirely new procedures for post-grant review have been put in place, phasing out *inter partes* re-examinations and replacing them with post-grant review and revised *inter partes* review processes. In addition, the Act establishes a special transitional post-grant review process for business method patents. The new law also includes many important changes for patent litigators, including new rules affecting joinder of parties in patent infringement actions, changes to the false marking provisions, new statutory provisions regarding advice of counsel, and expansion of the prior user defense.

Some of the new provisions will be implemented immediately, while others will go into effect twelve or eighteen months after enactment of the Act.

First Inventor to File

The Act converts the present “first person to invent system” in the United States to a system in which the first inventor to file a patent application has priority. With this change, the United States joins the rest of the world in using a first-to-file priority system. The Act also eliminates interference proceedings used to determine the actual first inventor when conflicting applications are filed.

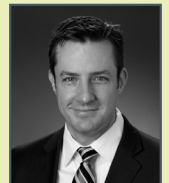
Because the first inventor to file will now have priority, the Act establishes a new procedure called a derivation proceeding whereby a subsequent filer may challenge the priority of the first filer on the ground that the earlier filing was derived from the second applicant. Derivation proceedings must be commenced within ten years of the misappropriation, and within one year of informing the US Patent and Trademark Office (PTO) of the issue.

Effective eighteen months after enactment.

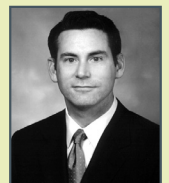
Contacts



Paul Alexander
+1 415.356.3085



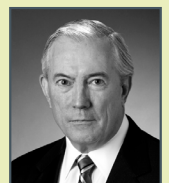
Michael A. Berta
+1 415.356.3079



James S. Blackburn
+1 213.243.4063



Ali R. Sharifahmadian
+1 202.942.6370



Robert P. Taylor
+1 415.356.3084

Joinder of Parties

Over the past several years, there has been a marked increase in patent infringement actions naming multiple defendants in the same action based on the allegation that each has separately infringed the patent-in-suit. For all civil actions commenced on or after September 16, 2011, the law now explicitly states that “accused infringers may not be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, based solely on allegations that all have infringed the patent or patents in suit.” The new law permits parties accused of infringement to waive this provision if they choose.

The amendment bars consolidation for trial of multiple cases against different defendants, but does not speak to the issue of consolidation for pre-trial purposes such as discovery. Presumably, the courts and parties will continue to implement sensible pre-trial coordination, such as avoiding multiple depositions of the same individual. The new law does not appear intended to change the practice in this area.

Effective immediately.

Post-Grant Review Proceedings

The Act creates a new procedure by which third parties can attack recently issued patents. For a period of nine months after a patent’s grant, a third party can challenge the issuance of a patent on any statutory grounds. The PTO will conduct a review if it appears “more likely than not” that the arguments raised by the third party would invalidate the patent if not rebutted. This is a lower standard than that currently required for instituting a re-examination, which requires “a substantial new question of patentability” in order to engage the PTO. Petitioners, however, should take care when considering whether to seek post-grant review, as the Act provides that a petitioner will be estopped from asserting in any subsequent action before the PTO, the International Trade Commission, or a court an invalidity defense on “any ground that petitioner raised or reasonably could have raised during the review.”

Effective one year after enactment.

Inter Partes Review Proceedings

The Act also implements a new *inter partes* review proceeding, which may be requested by any party other than the patent owner after nine months have elapsed from the granting or re-issuance of a patent, or after a post-grant review has been completed, whichever is later. The Act also phases out *inter partes* re-examinations when *inter partes* reviews come into effect. *Inter partes* review is more limited than post-grant review. Prior art submissions are limited to patents and printed publications, and the threshold inquiry for *inter partes* review is whether there is a reasonable likelihood that the petitioner would prevail on at least one claim. The same estoppel provisions applicable to post-grant review apply to *inter partes* review.

Under current practice, it is not uncommon for a party accused of patent infringement to institute an *inter partes* re-examination at the PTO and to file a civil suit requesting a court to find the patent invalid. The Act prohibits the PTO from instituting an *inter partes* review if the requester already filed a civil action challenging the validity of the patent. Likewise, if such a civil action is filed after the *inter partes* process has begun, the civil suit shall automatically be stayed pending the result of the review.

The Act makes clear that invalidity counterclaims do not trigger the provision, so it will still be possible to have review proceedings and legal proceedings simultaneously evaluating the validity of an issued patent. However, an accused infringer must seek *inter partes* review within one year of being served with a complaint alleging infringement, or else the PTO will deny the petition.

The Act makes no changes to Section 302, which allows for *ex parte* re-examination.

Effective one year after enactment.

Supplemental Examination

A patentee may request that the PTO engage in supplemental examination of an issued patent to consider, reconsider, or correct information believed to be relevant to the patent. Any submitted material can be considered by the PTO

in this proceeding, unlike in a re-examination proceeding begun by a third party, in which only patent applications and publications can be considered. If the request is granted, however, the PTO re-examines the patent according to the procedures set out for *ex parte* re-examinations with some minor exceptions.

Under current law, deliberate failure to disclose references that may render a patent claim anticipated or obvious may be inequitable conduct that can result in the invalidation of the entire patent. The Act's supplemental examination procedure appears to provide patentees an opportunity to cure a potential enforceability issue by providing that information to the PTO for consideration in a supplemental examination. So long as the examination is completed before the onset of litigation, the newly provided information cannot form the basis for an inequitable conduct defense. However, the Act does not allow supplemental examination to retroactively eliminate the inequitable conduct, but merely shifts enforcement to the PTO. If the PTO determines during the supplemental examination that a material fraud was perpetrated on it, then the Director is authorized to cancel the claims and to refer the matter to the Attorney General.

Effective one year after enactment.

Transitional Program for Covered Business Method Patents

The Act creates an eight-year temporary program in which post-grant review for business method patents relating to financial products and services can be requested by parties that have been accused of infringement of such patents. Unlike the other post-grant reviews created by the Act, there is no requirement that these business method patent reviews take place within the first nine months after issuance. The effect of this provision is to reduce the burden of proof required by defendants in business method patent litigation, because they will be able to take advantage of the "preponderance of the evidence" standard established for post-grant review, rather than having to attempt to meet the

"clear and convincing evidence" required by the courts to support a finding of invalidity. In addition, a party may seek a stay of a civil infringement action relating to a patent that is subject to a post-grant review under this section, and may take an immediate interlocutory appeal of a district court's decision with respect to the stay request.

Effective one year after enactment, sunsets eight years after effective date.

Tax Strategies Deemed within the Prior Art

While explicitly not addressing the patentability of other business-method patents, the Act precludes the patenting of tax strategies by deeming them to be within the prior art for both obviousness and anticipation purposes.

Effective immediately.

Defense to Infringement Based on Prior Commercial Use

Section 273 currently allows parties that were using business methods at least one year before the effective filing date of an issued patent on those methods to avoid liability for infringement. The Act extends this protection to pre-existing users of "any subject matter consisting of a process, or consisting of a machine, manufacture, or composition of matter used in a manufacturing or other commercial process." To take advantage of the defense, however, a defendant must have used the subject matter commercially in the United States at least one year before the earlier of the effective filing date of the invention or the date on which the claimed invention was first disclosed to the public. The sale of a product or service by a person entitled to assert this defense exhausts the patent owner's rights with respect to all downstream purchasers.

Effective on patents issued after the date of enactment.

Marking

Currently, a patentee must mark its patented products with the patent number, or else it loses the ability to collect damages for infringement that takes place before actual notice is given to the accused infringer. Under the Act, the

marking of patented goods now can be accomplished by indicating an internet address rather than a patent number, so long as the patent information is available at no charge by accessing that Internet address.

Under the current false marking statute, any person can sue for damages for false marking. The Act removes this power, replacing it with a provision that allows civil suits by parties who have suffered competitive injuries as a result of false marking to reclaim their damages, and limiting false marking *qui tam* actions to those brought directly by the government. The Act further provides that a false marking claim cannot be brought based solely on the continued marking of a product with the number of a patent that has expired. These provisions are effective immediately, and essentially eliminate the current spate of false marking actions brought as private *qui tam* actions.

Effective immediately.

Advice of Counsel

The Act provides that the failure of a defendant to obtain the advice of counsel with respect to an allegedly infringed patent, or to present evidence at trial with respect to such advice, cannot be used to establish willful infringement or the intent to induce infringement.

Effective one year after enactment.

Enhanced Jurisdiction over Patent Cases

Under existing law, the district courts have jurisdiction over cases “arising under” federal laws, including the patent laws. Likewise, the Federal Circuit has exclusive appellate jurisdiction over cases “arising under” the patent laws. In an unusual interaction between this portion of the law and the division of jurisdiction between state and federal courts, the Supreme Court has held that state courts have the power to hear patent claims when they are asserted as compulsory counterclaims. *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002). In that same decision, the Supreme Court found that the Federal Circuit does not have appellate jurisdiction in such cases. The Act

removes jurisdiction from state courts to hear such cases and extends the jurisdiction of federal district courts to hear them instead. The Act also states that the Federal Circuit shall have appellate jurisdiction in cases in which a party has asserted a compulsory counterclaim arising under federal patent or plant variety protection statutes. This change ensures that the Federal Circuit is not bypassed in patent litigation, regardless of whether the patent issues are asserted by plaintiff or defendant.

Effective immediately.

Limitations on Prior Art from Same Owner

The law has also been amended to help companies with large research groups avoid having their own prior art used against them. Section 102(e) currently allows any prior patent application or issued patent with a different inventor or group of inventors to be used as anticipatory prior art to prevent a new patent from issuing. Under the new law, if the assignee of the pending application owned the earlier reference at the time the pending application was filed, then that reference cannot be used as prior art unless it was already published at the time of application. The protection is extended to entities in joint research agreements as well.

Effective eighteen months after enactment.

No Distinction between US and Foreign References

Sections 102(a), (b), (d), and (e) currently distinguish between disclosures made in the United States and disclosures made in foreign countries when determining which references are available for consideration as anticipatory prior art. The revised law no longer makes those distinctions, and instead focuses on what was “available to the public” at the time the patent application was filed. This change allows evidence of public use or sale in a foreign country before the date of application to be considered as prior art, expanding the pool of references available.

Effective eighteen months after enactment.

Best Mode Requirement

While disclosure of the best mode remains a requirement under Section 112, failure to disclose the best mode will no longer be grounds for finding a patent invalid or unenforceable.

Effective immediately.

Pre-issuance Submissions by Third Parties

Under current Section 122(c), no “pre-issuance opposition to the grant of a patent on an application may be initiated after publication of the application without the express written consent of the applicant.” The Act provides that third parties may submit patent applications or any publications relevant to the examination of the patent, so long as the materials are submitted within six months of the publication of the application or before the first rejection of any claim by the examiner, whichever is later. This change should encourage third parties to submit information to the PTO.

Effective one year after enactment.

Miscellaneous Provisions

Inventor’s Oath or Declaration: Under the Act, continuation, divisional, and continuation-in-part applications will not require a new oath to be filed.

Effective one year after enactment.

Venue: The district court with authority to review actions of the Director of the PTO will be the District Court for the Eastern District of Virginia, not the District Court for the District of Columbia.

Effective immediately.

Fee Setting Authority: Small entities will still have many fees reduced by 50 percent, but micro entities will now have those same fees reduced by 75 percent. A micro entity is defined as an applicant that qualifies as a small entity, has not been the named inventor on more than four previously filed applications, and has a gross income of no more than three times the median household income. Additionally, employees of institutions of higher education

and applications that are assigned to institutions of higher education qualify for the micro entity rates.

Fees have been increased across the board, by about 10 percent. The Director is also authorized to charge a US\$400 fee for accepting nonelectronic filings.

Effective ten days after enactment.

Priority Examination for Technologies Important to American Competitiveness: The Director may prioritize applications for products, processes, or technologies that are important to the national economy or national competitiveness.

Effective one year after enactment.

Technical Amendments: The Act removes a number of clauses requiring a “lack of deceptive intent” by patent agents and attorneys from the law. This should reduce the number of grounds on which inequitable conduct during procurement of a patent can be charged in later attempts to invalidate issued patents.

Effective one year after enactment.

Funding Agreements: Under existing law, if a federally funded nonprofit entity chooses to retain ownership of a patent developed under a funding agreement with a federal agency, any profits from that patent should be used for further research, up to 5 percent of the annual budget of the facility. If the profits exceed that 5 percent mark, 75 percent of the excess goes to the US Treasury and the other 25 percent is used for research. Under the Act, only 15 percent of the excess will go to the Treasury and the remaining 85 percent will be retained by the nonprofit.

Effective immediately.

ARNOLD & PORTER LLP

We hope that you find this brief summary helpful. If you would like more information or assistance in addressing the issues raised in this Advisory, please feel free to contact:

Paul Alexander

+1 415.356.3085
Paul.Alexander@aporter.com

Michael A. Berta

+1 415.356.3079
Michael.Berta@aporter.com

James S. Blackburn

+1 213.243.4063
James.Blackburn@aporter.com

Domenic Ippolito

+1 415.356.3092
Domenic.Ippolito@aporter.com

Ali R. Sharifahmadian

+1 202.942.6370
Ali.Sharifahmadian@aporter.com

Robert P. Taylor

+1 415.356.3084
Robert.Taylor@aporter.com

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