

STATUS OF PATENT REFORM LEGISLATION

On June 23, 2011, the United States House of Representatives approved its patent reform bill, H.R. 1249 (the Leahy-Smith America Invents Act). The passage follows the passage of a similar bill in the United States Senate (S.23, the America Invents Act, passed in March, 2011), and brings long-anticipated U.S. patent reform to the verge of reality. All that remains is for the House and Senate to reconcile their bills and present a draft law to the President for enactment. Given the Obama administration's previous support for patent reform and the Senate version of the bill, it is a virtual certainty that the President will promptly sign a bill once it is presented to him. Since it appears that patent reform is likely to occur, this summary presents some of the key changes that can be expected.

First Inventor to File

By far the most sweeping change proposed by the legislation is the transition from a "first to invent" system to a modified "first to file" system, more commonly referred to as "first inventor to file," to take effect eighteen months after enactment. The new system would retain the requirement of current 35 U.S.C. 102(f) that an applicant actually invented the material sought to be patented (hence the term "first inventor"), but would otherwise change much of the existing language of 35 U.S.C. 102.

By moving to a first inventor to file system, the critical inquiry would shift from, "when was the invention conceived?" to "when was the application filed?" Interference proceedings and the ability to antedate references by establishing an earlier invention date under 37 C.F.R. 1.131 would be completely eliminated. Essentially, the new system would result in a race among applicants to the Patent Office, with the first applicant to file being the winner.

A move to a first inventor to file system would substantially harmonize the United States patent system with the patent laws of the rest of the world. However, the proposed legislation does not eliminate all of the elements that have made the American system unique. The Senate and House bills both retain some measure of the one-year grace period currently found in 35 U.S.C. 102(b). For example, a disclosure made within a year before filing would not serve as a prior art reference if the disclosure was made by the inventor or someone who obtained the subject matter directly or indirectly from the inventor (proposed 102(b)(1)(A)). Further, a disclosure made by another less than a year before filing would not qualify as a prior art reference if the subject matter of the disclosure was preceded by a disclosure of the inventor or derived from the inventor's work (proposed 102(b)(1)(B)).

Furthermore, a patent or published application filed before the application at issue and naming another inventor will not serve as prior art if the subject matter disclosed was obtained directly or indirectly from the inventor of the application at issue (proposed 102(b)(2)(A)). Also, a patent or published application filed prior to the application at issue and naming another inventor will not

qualify as prior art if the subject matter was contained in a public disclosure made prior to the filing of that patent or published application by the inventor at issue or someone who obtained the subject matter directly or indirectly from the inventor at issue (proposed 102(b)(2)(B)). In order for an inventor's prior disclosure to both disqualify the patent or printed publication of another and not itself qualify as prior art, the inventor's application must be filed less than a year after the initial disclosure.

Derivation Actions and Proceedings

Both the Senate and House bills contain provisions for derivation actions and proceedings that would allow a first inventor with a later filing date to present evidence that another inventor with an earlier filing date derived his claimed invention from the first inventor. A civil action would be provided for cases between two issued patents, and a proceeding at the PTO would be provided for cases between two applications or between an application and an issued patent. However, the civil action could only be filed up to one year after the issuance of the first patent, and the proceeding initiated only up to one year after the publication of the later filed application. With the focus now shifting to the filing date, a derivation action appears to be the only avenue for an inventor that lost the race to the Patent Office to receive priority.

Post Grant Review

The patent reform legislation would allow for a system of post grant review for recently issued patents somewhat akin to oppositions in other countries. A party seeking to oppose a recently issued patent on any ground of invalidity could file a petition requesting review of that patent. The post grant review process provides third parties with an additional tool to have the patent office reconsider the validity of a patent. In contrast to reexamination, which only allows validity challenges on the basis of prior art patents and printed publications, the post allowance review process allows patents to be challenged on any ground. Further, both the Senate and House bills authorize the PTO to promulgate litigation-type discovery rules in connection with the review proceedings. Both bills require that a petition for post grant review must be filed within nine months of the issuance of the patent.

Post grant review has several associated limitations. Unlike current reexamination practice, post grant review cannot be initiated if the petitioner or his real party in interest has filed a civil action challenging the validity of the patent. Further, while the ruling from a post grant review proceeding may be appealed by the petitioner, the petitioner and his real party in interest are estopped from asserting any ground for invalidity raised in the petition in a later civil action. In essence, if infringement litigation or a declaratory judgment action for invalidity is contemplated, the choice between post grant review with appeal and traditional civil litigation must be weighed since only one of the two options may be pursued.

***Inter Partes* Review**

The Senate and House bills would modify *inter partes* reexamination practice, renamed *inter partes* review. Among the most significant changes is a heightened bar for *inter partes* review to

be authorized. Namely, the current “substantial new question of patentability” standard would be replaced by a requirement of a reasonable likelihood that the petitioner would prevail with respect to at least one claim. Additionally, the bills allow the PTO, for the first time, to promulgate litigation-type discovery rules in *inter partes* review proceedings.

Supplemental Examination

Both pieces of legislation would authorize a supplemental examination procedure in addition to the current *ex parte* reexamination and *inter partes* reexamination (renamed *inter partes* review by the current legislation). Patent owners could file a request for supplemental examination of an issued patent, submitting information including, but not limited to, patents and printed publications they deem to be relevant to patentability. If the information raises a substantial new question of patentability, a supplemental reexamination of the patent will be conducted. A key provision of the addition essentially states that a patent cannot be held unenforceable for inequitable conduct pertaining to information if that information was submitted or corrected by the patent holder in a request for supplemental examination provided that an allegation of inequitable conduct has not been already plead in a civil action. This procedure would go to great lengths to lessen the threat of inequitable conduct charges in litigation over omitted or incorrect information by providing patent holders the ability to correct mistakes or oversights without penalty. However, this procedure cannot be invoked to cure fraud perpetrated on the PTO.

Third Party Submissions

The Senate and House bills also allow for supplemental submissions by third parties. Within the date restrictions, third parties would be able to submit for inclusion in the record of the application any patent, published application or printed publication, accompanied by a fee and a concise statement of the relevance of the submission. Any document would be required to be submitted before the earlier of the date of a notice of allowance, or six months after the date of first publication of the application or the date of the first rejection of any claim of the application by the examiner, whichever is later. Although the window for submission is relatively narrow, this procedure would allow third parties aware of an application to submit for consideration potentially relevant documents, perhaps missed by the examiner, to supplement the examination.

Prior User Rights

The House bill modifies prior user rights, which are currently only available for business method patents. The House bill would grant prior user rights against any patented claim to a process or machine, manufacture or composition of matter used in a manufacturing or other commercial process, provided that the prior user commercially used the subject matter at least one year before the earlier of the effective filing date of the patent or the date on which the invention was disclosed to the public in a manner that qualified for the exceptions under (proposed) 35 U.S.C. 102(b)(1)(B) and 102(b)(2)(B). The expansion of prior user rights in the House bill is tempered by a limitation that the defense may not be used against patents which, at the time the invention was made, were owned or subject to an obligation of assignment to institutions of higher education or technology transfer offices whose primary purposes are the commercialization of

technologies developed by those institutions of higher education. The Senate bill makes a minor adjustment to current prior user rights without expanding the scope of applicability beyond business methods. If the House proposal is adopted trade secret practice would arguably be strengthened, as an entity utilizing trade secrets meeting the statutory definition of “commercial use” at least one year prior to any filing or public disclosure stands a good chance of avoiding any liability for a later patenting by another of that trade secret. One of the greatest tradeoffs that currently exists for entities that utilize trade secrets for commercial uses—that someone else will later independently develop and patent the technology, leading to infringement liability for the trade secret holder—would only be a concern in the situation that the invention is subject to an obligation of assignment to institutions of higher education or technology transfer offices.

Transitional Business Method Review Program

The legislations provide for a transitional program by which petitioners may request that issued business method patents be reviewed by the PTO. To qualify, the petitioner or his real party in interest would have to have been sued for or charged with infringement of the patent. Further, the review would be limited to references that meet the requirements of current 35 U.S.C. 102(a), disclosed the invention more than one year before filing of the patent, or would qualify under current 35 U.S.C. 102(a) but for the requirement that the disclosure be by another. Both the Senate and the House attached sunset clauses to the provision.

The provision, specific to business method patents, provides a review for petitioners larger in scope than the current *inter* or *ex partes* reexamination, while still providing a good opportunity for a litigant to receive a stay pending the outcome of the review. As an inexpensive option for defendants being sued over business method patents, the procedure may be widely utilized by those who qualify. One mitigating factor may be that parties availing themselves of this type of review would be estopped from re-asserting any claim of invalidity in a civil action that was raised in the review

Tax Strategy Patents

Both the House and Senate legislation include a provision effectively banning patents on tax strategies. Specifically, any strategy for reducing, avoiding or deferring tax liability would be deemed to be included in the prior art, and thus not eligible for patentability, although the provision does not apply to any part of an invention for the preparation of a tax return or filing.

Human Organism Limitation

The House bill would affirmatively bar patentability of any claim directed to or encompassing a “human organism,” although the bill does not define the term as it would apply to the statute.

Filing by Other than Inventor

The Senate and House bills slightly modify the procedure for the filing of a patent application by someone other than the inventor. By showing proof of the pertinent facts, a person to whom the inventor has assigned or agreed to assign the invention may file an application as the agent of the

inventor, and the patent, if issued, would be granted to the real party in interest and no longer to the inventor. This provision likely simplifies issues associated with non-cooperative inventors who are under agreement to assign their inventions, and makes the filing in their stead easier for the real parties in interest. In addition, the provision is consistent with the practice in other countries where the assignee files the application rather than the inventor(s).

Best Mode Requirement

Both pieces of legislation would forbid failure to disclose the best mode of an invention from invalidating or cancelling any claims in a patent. It appears that this change would effectively eliminate failure to disclose the best mode as an independent ground for defense in patent infringement litigation.

False Marking

The Senate and House legislations would change the false marking provision so that only the United States may sue for the penalty authorized. However, a civil cause of action is acknowledged for those who have suffered competitive injury as a result of the false marking. Further, the House bill provides that a marked product that was once covered by a patent that has since expired does not constitute a false marking violation. These changes are being made to curb the surge of false marking litigation currently ongoing, likely at least in part motivated by the 50% share of the penalties that go to the individual who initiates the litigation.

USPTO Fee and Funding Authority

Both the Senate and House bills provide the Director of the USPTO with the authority to set and adjust the fees collected by the Office. While the Senate act provides such power without restriction, the House bill sunsets the fee setting authority after seven years. Further, the Senate bill allows the PTO to retain all of its collected fees by forbidding the diversion of fees to the general government coffers. While the House bill also appears to end fee diversion, some public comments have expressed a concern as to whether the House bill provides an opportunity for Congress to continue the diversion of fees. The House bill applies an additional 15% surcharge to most fees currently collected by the PTO, the surcharge expiring for each fee when the USPTO Director first exerts his power to adjust that fee. If this provision is adopted by the Senate, it is likely that practitioners will see an immediate, permanent increase in PTO fees.

Micro Entity Status

Both legislations provide provisions for micro entities as an addition to the current large and small entity status. Micro entities must meet additional requirements to those for small entity status, such as not being named as the inventor on more than five applications in the Senate act or four in the House bill, not having a gross income exceeding three times the reported median household income and not having assigned or agreed to assign the invention to an entity having a gross income exceeding three times the reported median household income. Alternatively, inventors employed by and under agreement to assign inventive rights to institutions of higher education (limited to public institutions in the Senate bill) qualify as micro entities. Micro entity

status would entitle the applicant to a 75% reduction of applicable fees, and would likely help spur filings from individual inventors and very small businesses for which the costs of procuring patent protection are particularly prohibitive.

Miscellaneous Provisions

Both the Senate act and House bill include a provision to establish a patent ombudsman program for small business concerns. Further, both bills would authorize priority examination for technologies deemed important for American competitiveness. Additionally, the House bill would authorize the creation of a pro bono program to assist financially under-resourced independent inventors and small business owners.

Summary

Enactment of the patent reform legislation will radically transform the patent landscape in the United States. The modifications to existing patent law would be the most substantial since the overhaul of the patent laws in 1952. The reform legislation is viewed by most of the patent community as a substantial step toward fully funding the patent office and ending fee diversion, and harmonizing U.S. laws with those of foreign jurisdictions. Also, post grant review provides an opportunity for patents to be challenged for nine months immediately following issuance on any grounds of invalidity as opposed to the limited process in reexamination of only evaluating patentability based on patents and printed publication.