Intellectual Property Alert:

The America Invents Act and What it Means for the Future of Patent Acquisition and Enforcement

By: Gary Fedorochko

On September 8, 2011, the United States Senate approved the Leahy-Smith America Invents Act (H.R. 1249), finalizing congressional acceptance of long-anticipated U.S. patent reform. The Senate's passage comes only months after the House of Representatives voted to pass the bill on June 23, 2011, and brings many changes to U.S. patent law. This summary presents some of the key provisions of the Act, and what each means for the future of patent acquisition and enforcement.

First Inventor to File

By far the most sweeping change included in the Act is the transition from a "first to invent" system to a modified "first inventor to file" system, which is set to take effect eighteen months after enactment. This new system retains 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 otherwise changes much of the existing language of § 102.

By moving to a modified first inventor to file system, the critical inquiry now becomes "when was the application filed" rather than "when was the invention conceived?" Accordingly, interference proceedings and the ability to antedate references by establishing an earlier invention date under 37 C.F.R. § 1.131 are eliminated. Essentially, the new system results in a race among applicants to the Patent Office, with the first applicant to file being the winner.

This move substantially harmonizes the United States patent system with the patent laws of the rest of the world. However, the Act does not eliminate all of the elements that have made the American system unique. For example, the Act retains some measure of the one-year grace period previously found in 35 U.S.C. § 102(b), relating to disclosure of the invention prior to filing an application. Under the new § 102, a disclosure made within a year before filing is not prior art if the disclosure was made by the inventor (or by another who obtained the subject matter directly or indirectly from the inventor) (§ 102(b)(1)(A)). Further, a public disclosure by another before the inventor's filing is not a bar if the inventor made an earlier public disclosure

before the other disclosure and the inventor's filing was made within a year of the inventor's disclosure. (§ 102(b)(1)(B)).

Furthermore, a patent or published application filed before the application at issue and naming another inventor is not prior art if the subject matter disclosed was obtained directly or indirectly from the inventor of the application at issue (§ 102(b)(2)(A)). Also, a patent or published application filed by another prior to the inventor's application is not prior art if the subject matter was contained in a public disclosure by the inventor (or by another who obtained the subject matter directly or indirectly from the inventor) made prior to the filing of the other patent or published application (§ 102(b)(2)(B)). And finally—perhaps in a nod to now-defunct § 103(c)—subject matter disclosed in an application or patent is not prior art if the subject matter disclosed and the claimed invention were commonly owned or subject to an obligation of assignment to the same person no later than the effective filing date of the claimed invention (§ 102(b)(2)(C)). Under these new rules, a modified first inventor to file system emerges where, in order for an inventor's prior disclosure to disqualify as applicable prior art a patent or printed publication of another while not itself qualifying as prior art, the inventor's application must be filed less than a year after the inventor's disclosure.

New Scope of Prior Art

The Act overhaul of §102 also expands the scope of prior art. Specifically, new § 102(a)(1) now provides that prior art encompasses patents, printed publications, inventions in public use or on sale, or inventions *otherwise available to the public* before the effective filing date of the application in question. Although vague, the language "otherwise available to the public" expands the scope of prior art over that originally found to be within the bounds of § 102. Even more importantly, prior art public use and commercial activities under the new § 102(a) are no longer territorially limited to such acts that occur in the U.S. That is, public uses and commercial activities outside the U.S. now constitute prior art under the Act.

The Act's elimination of original § 102(e) expands the scope of prior art even further. Section 102(a)(2) now provides that another inventor's issued patent or published application that was effectively filed before the filing date of the application in question but issued or published thereafter now constitutes prior art. Traditionally, applications and patents could rely on a foreign filing date to establish an effective filing date under § 119 (i.e., the foreign filing date could be used for a patent-granting purpose). Under the now-repealed § 102(e) (through its interpretation in *In re Hilmer*), the effective filing date based on the foreign filing date could not be used to predate a subsequent application for prior art purposes (i.e., the foreign filing date could not be used for a patent-defeating purpose). Now under § 102(a)(2), a foreign filing date may be used both as a priority date for an applicant's U.S. patent as well as a prior art date for defeating subsequent applications, thus overruling the *In re Hilmer* decision disfavored by many foreign companies.

Derivation Actions and Proceedings

Under a first *inventor* to file system, a first filer must have actually invented the subject matter in order to be granted a patent. Accordingly, the Act provides for derivation actions and proceedings that allow a first inventor with a later filing date to present evidence that an applicant with an earlier filing date derived her claimed invention from the first inventor. For situations involving two issued patents, the first inventor may bring a civil action against the earlier applicant (§ 291), and for situations involving two applications or involving an application and an issued patent, the first inventor may initiate a proceeding at the PTO (§ 135). However, a civil action may only be filed up to one year after the issuance of the first patent, and a proceeding initiated at the PTO may only be brought 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 Act establishes a system of post-grant review for recently issued patents—somewhat akin to oppositions in other countries—by adding chapter 32 to title 35 of the U.S. Code. Under the new process, a party seeking to oppose a recently issued patent on any ground of invalidity may file a petition requesting review of that patent (§ 321). This post-grant review process provides third parties with an additional tool to have the PTO reconsider the validity of a patent. In contrast to a traditional reexamination proceeding, which only allows validity challenges on the basis of prior art patents and printed publications, the post-grant review process allows patents to be challenged on any type of prior art as well as any ground under 35 U.S.C. §§ 101 and 112 (§ 321(b)) except failure to disclose best mode. Also, standing in contrast to the traditional reexamination's "substantial new question of patentability" standard, a post-grant review will be issued if the PTO determines that a petition for review establishes that "it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable" (§ 324(a)), or the petition raises a "novel or unsettled legal question that is important to other patents or patent applications" (§ 324(b)). Further, the Act authorizes the PTO to promulgate litigation-type discovery rules in connection with the review proceedings (§ 326), but requires any petitions for post-grant review be filed within nine months of the issuance of the patent in question (§ 321(c)).

Inter Partes Review

As part of establishing post-grant review procedures, the Act modifies chapter 31 of title 35 of the U.S. code relating to *inter partes* reexamination practice, renaming the practice "*inter partes* review." Among the most significant changes is a heightened bar for *inter partes* review to be authorized. Namely, the traditional "substantial new question of patentability" standard has been replaced by a requirement that "there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition" (§ 314(a)). Additionally, as with post-grant review, the Act authorizes the PTO, for the first time, to promulgate litigation-

type discovery rules in *inter partes* review proceedings (§ 316). However, in contrast to post-grant review, *inter partes* review may not be filed until the later of nine months after the grant of the patent in question or the date of termination of a post-grant review (§ 311(c)), and *inter partes* review is limited to challenging the patent in question using only granted patents or printed publications (§ 311(b)).

Limitations of Post-Grant and Inter Partes Review

The new post-grant review procedures of the Act have several associated limitations. Unlike *ex parte* reexamination practice, post-grant and *inter partes* review cannot be initiated if the petitioner or her real party in interest has filed a civil action challenging the validity of the patent (§§ 315(a), 325(a)). Further, while the ruling from a post-grant and *inter partes* 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 (§§ 315(c), 325(c)). In essence, if infringement litigation or a declaratory judgment action for invalidity is contemplated, the choice between post-grant or *inter partes* review with appeal and traditional civil litigation must be weighed since only one of the two options may be pursued.

Supplemental Examination

Although under the Act *ex parte* reexamination (left untouched by the Act) and post-grant and *inter partes* review are available to anyone challenging the validity of a patent, the Act provides a process through which only a patent owner may request reexamination of an issued patent in order to cure any subsequently found defects. Patent owners may now 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 (§ 257). If the information raises a substantial new question of patentability, a supplemental reexamination of the patent will be conducted (§ 257(b)). A key provision related to Supplemental Examination essentially states that a patent cannot be held unenforceable for inequitable conduct pertaining to information submitted or information 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 (§ 257(c)). This procedure lessens 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 (§ 257(e)).

Third Party Submissions

The Act also allows for supplemental submissions by third parties. Within date restrictions, third parties may 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 (§ 122(e)(2)). Any document must 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 (§ 122(e)(1)). Although the window for submission is relatively narrow, this procedure allows 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 Act expands the breadth of prior-user rights previously available only for business method patents by overhauling the relatively narrow § 273. Specifically, the Act grants prior-user rights against *any* patented claim to a process or to a 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 qualifies for an exception under § 102(b). Although much more expansive than the original § 273, this expansion of prior-user rights is tempered by a "University Exception," wherein the defense may not be used against patents that, 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 (§ 273(e)(5)). The Act arguably strengthens trade secret protection, as entities utilizing trade secrets meeting the statutory definition of "commercial use" at least one year prior to any filing or public disclosure stand 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 falls under the University Exception.

Transitional Business Method Review Program

The Act provides a transitional program by which petitioners may request issued business method patents be reviewed by the PTO. This transitional business method review proceeding under the Act is regarded as, and employs the standards and procedures of, the newly added post-grant review. To qualify, the petitioner or her real party in interest must have been sued for or charged with infringement of a patent. Further, if the petitioner is challenging the validity of a patent under original § 102 or § 103, the petitioner is limited to presenting prior art that would qualify under original § 102(a) (the traditional rule of anticipation) or prior art that disclosed the invention more than one year before the application date of the contested patent and would have qualified under original § 102(a) if the disclosure had been made by another. True to the name "transitional," the business method review program includes a sunset provision, repealing the program eight years after enactment.

The provision, specific to business method patents, provides a review for petitioners larger in scope than the traditional *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 reasserting any claim of invalidity in a civil action that was raised in the review.

Tax Strategy Patents

The Act includes a provision effectively banning patents on tax strategies. Specifically, any strategy for reducing, avoiding or deferring tax liability is deemed to be included in the prior art, and thus not eligible for patentability. The Act does not ban all tax-related patents, however, as an invention relating to the preparation of a tax return or filing, or an invention relating to financial management remain patent eligible under the Act as long as their novel aspects can be separated from any tax avoidance strategy.

Human Organism Limitation

The Act affirmatively bars patentability of any claim directed to or encompassing a "human organism." However, the Act stops short from defining the term as it would apply to the statute.

Filing by Other than Inventor

The Act further brings U.S. patent law in line with foreign jurisdictions by easing the requirements for the filing of an 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 now file an application as the agent of the inventor, and the patent, if issued, is granted to the real party in interest and no longer to the inventor. This provision likely simplifies issues associated with uncooperative inventors who are under agreement to assign their inventions, and makes the filing in their stead easier for the real parties in interest. Additionally, the provision is consistent with the practice in other countries where the assignee files the application rather than the inventor.

Best Mode Requirement

While the patent laws still require the best mode to be disclosed under 35 U.S.C. § 112, first paragraph, pursuant to the act, the failure to disclose the best mode will no longer result in the invalidation or cancelation of any patent claims (§ 282). This change effectively eliminates the failure to disclose the best mode as an independent ground for defense in patent infringement litigation.

Virtual Marking and False Marking

In an attempt to bring patent marking in line with modern technology, the Act explicitly provides that products with an affixed internet address to a website providing the status of patents

covering the product is sufficient notice for purposes of recovering damages during an infringement action (§ 287(a)). Further, the Act amends the previous false marking provision, now allowing only the United States to sue for the penalty authorized (§ 292(a)), while providing a civil cause of action to those who have suffered competitive injury as a result of the false marking (§ 292(b)). Further, the Act provides that a marked product that was once covered by a patent that has since expired does not constitute a false marking violation (§ 292(c)). These changes should prospectively 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

The Act provides the Director of the USPTO with the authority to set and adjust the fees collected by the Office, but sunsets the fee setting authority seven years after enactment. Although this authority is immediately granted to the Director, the Act requires specific oversight of changes, delaying the enactment of any fees the Director chooses to set. For example, the Patent Public Advisory Committee, which is required to hold a public hearing on any proposal, must be notified of the proposal 45 days prior to publishing the proposed change in the Federal Register. Following publication of the proposed change, the public is granted 45 days to comment on the proposed fees. Finally, a final rule cannot become effective until after a "Congressional Comment Period," lasting 45 days after publication of the final rule in the Federal Register.

Also, the Act at first blush appears to end fee diversion (§ 42(c)), but some public comments have expressed a concern as to whether Act provides an opportunity for Congress to continue the diversion of fees. The Act also applies a 15% surcharge to most fees currently collected by the PTO effective ten days after enactment, with the surcharge expiring for each fee when the USPTO Director first exerts his power to adjust that fee. This provision likely results in a permanent increase in PTO fees.

Micro Entity Status

The Act provides adds a class of "micro" entities to the current large and small entity classification (§ 123). Micro entities must meet additional requirements to those for small entity status, such as not being named as the inventor on more than four applications (§ 123(a)(2)), not having a gross income exceeding three times the reported median household income (§ 123(a)(3)), 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 (§ 123(a)(4)). Alternatively, inventors employed by and under agreement to assign inventive rights to institutions of higher education qualify as micro entities (§ 123(d)). Micro entity status entitles the applicant to a 75% reduction of applicable fees effective immediately, and will likely help

spur filings from individual inventors and small businesses for which the costs of procuring patent protection are particularly prohibitive.

Miscellaneous Provisions

The Act contains other miscellaneous provisions that, although not significantly altering current patent law, nonetheless provide positive steps towards creating a more progressive body of patent law. For example, the Act establishes a patent ombudsman program for small business concerns. Further, the Act authorizes priority examination for technologies deemed important for American competitiveness. The Act authorizes the creation of a pro bono program to assist financially under-resourced independent inventors and small business owners. And the Act provides for the establishment of three or more geographically-dispersed satellite patent offices within three years, subject to available resources.

Summary

Enactment of the Leahy-Smith America Invents Act, which will follow pending the President's signature, transforms many aspects of the patent landscape in the United States, bringing forth the greatest overhaul of patent law since the amendments to the patent laws in 1952. The enactment is viewed by most of the patent community as a substantial step toward fully funding the patent office and ending fee diversion while harmonizing U.S. laws with those of foreign jurisdictions. But the act goes further, providing post-grant review, giving the public an opportunity to challenge patents 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. Moreover, the act expands the definition of prior art by including extraterritorial public use and commercial activities.