

US Patent Reform: What Really Changes?

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For the general public, the Leahy-Smith America Invents Act of 2011 has been touted as a package of reforms that should improve the US patent system. In theory, these improvements will happen by moving the US patent system closer toward harmonization with other patent systems around the world, and by addressing acknowledged problems in the way that the United States Patent & Trademark Office (USPTO) sets fees, as well as the ways that the validity of patents can be challenged at the Patent Office instead of in the courts. The ultimate goal of these changes is to encourage investment in innovation and, as a result, stimulate job growth.

For inventors, patent owners and patent professionals, the Leahy-Smith America Invents Act of 2011, which was signed into law on September 16, 2011, represents the biggest set of changes to happen to US patent laws since 1836. Initially introduced into Congress in 2005, the final bill includes the three major changes along with a wide variety of other “little” changes. Most of the high-profile changes associated with patent litigation issues, which were included in previous versions of bill, were ultimately rejected and left on the Congressional cutting-room floor. Even with all that was cut out, the bill is still more than 150 pages long. Given that many of the major changes will be phased in over time and apply prospectively to newly filed patent applications, it could be a decade or more before the true impact of these changes to the US patent system can be evaluated.

This paper provides an overview of the Leahy-Smith America Invents Act of 2011 (the “AIA”), and goes into more detail on the shift to a first-inventor-to-file patent system and the revamped post issuance proceedings. The paper points to some of changes in best practices for inventors, patent owners and patent professionals that may happen as a result of the AIA. Because the AIA specifically calls for the Patent Office to promulgate numerous regulations on the details of how the new law will be implemented, the paper also highlights some of the open issues that may be resolved by forthcoming regulations.

The AIA bill and additional details about the AIA can be found at the following links:

Final AIA bill as enacted – a required read, and then reread, for patent professionals:
http://www.uspto.gov/aia_implementation/bills-112hr1249enr.pdf

Patent Office website on AIA implementation – a very helpful resource:
http://www.uspto.gov/aia_implementation/index.jsp

Patent Office effective dates of various AIA provisions – must know dates:
http://www.uspto.gov/aia_implementation/aia-effective-dates.pdf

THE MAJOR CHANGES

The three major changes to the US patent system that will be implemented under the AIA are: (1) First-Inventor-To-File, (2) Fee Setting, but Not Fee Spending, Authority and (3) Revamped Processes for Challenging Validity at the Patent Office.

First-Inventor-to-File: The AIA changes the US from the current first-to-invent (“FTI”) patent system to a first-inventor-to-file (“FITF”) patent system with a first-to-publish (“FTP”) grace period. This change brings the United States closer to, but not into complete harmonization with, other patent systems around the world. The AIA also eliminates the *Hilmer* doctrine and accords foreign national applications their foreign filing date if they are filed directly in the US or as a PCT application designating the US and published in one of the ten official PCT languages. The change to FITF also phases out interference proceedings and replaces them with a new “derivation” proceeding.¹ The changes will go into effect for applications filed 18 months after the date of enactment, which will be March 16, 2013.² However, given that the FTP grace period can begin up to 12 months before filing, patent owners and patent professionals actually have only until March 2012 to understand how these changes may impact their patent filing strategies.

Fee Setting, but Not Fee Spending, Authority: The earlier Senate version of the bill would have completely ended what has come to be known as “fee diversion” or the ability for Congress to divert to the general tax fund any monies collected by the Patent Office above the appropriated budget in a given fiscal year. The final version of the AIA falls short of giving the Patent Office complete control over its funding. While the Patent Office will now have the ability to set its own fees, the fees will be subject to public hearings and Congressional oversight. Any excess monies collected will be deposited in a specific trust account that would require Congressional authorization before the Patent Office could access those funds. A sunset provision ends this authority in seven years.³ Even though the general fee-setting authority will take some time to implement (about 18 months based on the current rollout shown on the Patent Office website), two things that go into effect almost immediately are a 15% surcharge on Patent Office fees, beginning September 26, 2011,⁴ and waiver of the additional \$400 filing fee on patent applications filed electronically, effective November 15, 2011.⁵ Despite repeated assurances by House members during the Congressional debate that the Patent Office would not need to worry about accessing funds authorized under the fee setting authority, it appears that is not the case. It is unlikely that Congress will pass the necessary appropriation bill in time for the start of FY2012 in October. More critically, the so-called “anomaly” that is needed to give the Patent Office authority to spend more than its FY2010 budget limits has not yet been included in any of the proposed continuing resolutions that will be used to keep the Federal Government running until an appropriation bill is passed.

¹ See AIA Sec. 3(i).

² See AIA Sec. 3(n)(1).

³ See AIA, Sec. 10(i)(2).

⁴ See AIA, Sec. 11(i)(1)(A).

⁵ See AIA, Sec. 10(h)(1).

Revamped Processes For Challenging Validity at the Patent Office: The AIA phases out the existing *inter partes* reexamination proceeding and, in its place, creates several new post issuance review proceedings (Post-Grant Review, Inter Partes Review, Transitional Program for Covered Business Method Patents). It also gives patent owners a new option to effectively “cleanse” a patent from specific charges of inequitable conduct by requesting a supplemental examination. In addition, the AIA provides a meaningful opportunity for third parties to submit prior art during the entire examination of a patent application, including the ability and requirement to comment on the relevance of the submitted art.

New Review Proceedings

The new post issuance review proceedings are designed to provide a more effective option for determining patent validity by imposing a statutory one-year timeline on the proceedings and having the proceedings run by an administrative patent judge as an adjudication rather than an examination. The adjudication process will provide for limited discovery and an oral hearing with a preponderance of the evidence burden of proof applied to the moving party. It is expected that the USPTO Director will promulgate regulations to run these new review proceedings as “contested matters” under 37 CFR § 41.100 et. seq. in a manner that will involve motion practice similar to the way that interferences are currently conducted before the Board of Patent Appeals and Interferences.⁶

As of September 16, 2011, the current standard for initiating *inter partes* reexamination based on a showing of only a substantial new question of patentability is replaced. Now an *inter partes* reexamination can be initiated only if a petition shows a reasonable likelihood of success.⁷ This is the same standard that will be used for evaluating a petition for the new Inter Partes Review proceeding which replaces *inter partes* reexamination as of September 16, 2012.⁸ Inter Partes Review is the most limited of the new review proceedings, similar to the scope of current *inter partes* reexamination that can be initiated only after a so-called “first window” of nine months after issuance, and can not be initiated more than one year into any co-pending litigation.⁹ Post-Grant Review is a more expansive proceeding that can be initiated only during the first window of nine months after issuance. Any grounds of invalidity can be raised in a Post-Grant Review, and the standard for initiating such a review is higher than for the Inter Partes Review as the petitioner must prove that the invalidity of the patent at issue is more likely than not.¹⁰ The Transitional Program for Covered Business Method Patents review uses the same procedures as a Post-Grant Review but can be invoked only by someone sued or threatened with a patent covering non-technological aspects of financial transactions.¹¹ It is expected that the Patent Office will require a challenge based on whether there is proper subject matter and/or enablement before this review can be used.

⁶ See AIA, New Sec 316.

⁷ See AIA, Sec. 6(c)(3)(A).

⁸ See AIA, New 35 USC § 314(a).

⁹ See AIA, New 35 USC § 315(b).

¹⁰ See AIA, New 35 USC § 324(a).

¹¹ See AIA, Sec. 18(a)(1)(B).

All of the new review proceedings technically begin one year after enactment of the AIA—on September 16, 2012.^{12,13,14} Inter Partes Reviews will apply to all issued patents, instead of only patents issued after November 1999 like the current *inter partes* reexaminations.¹⁵ There will be a graduated implementation that allows the Patent Office to limit the number of Inter Partes Review proceedings initiated during each of the first four years following enactment¹⁶ if the number of such proceedings exceeds about 250.¹⁷ Because the Post-Grant Review applies to patents issued under the new FITF patent system that goes into effect on March 16, 2013,¹⁸ the roll out of this kind of review will naturally be delayed and more gradual.¹⁹ The Transitional Program for Covered Business Method Patents (TPCBMP) review uses the same procedures as the Post-Grant Review and likely will form the bulk of the early uses of the Post-Grant Review until more FITF patents are granted, but the TPCBMP review is transitional in nature as there is a sunset provision that repeals this review proceeding after eight years.²⁰

If all of these changes work as envisioned, it should mean that the new review proceedings would become a separate, side track for challenging patent validity that would run in series with patent litigation to arrive at a single, less expensive resolution; rather than the current approach, which has seen patent reexaminations used as a simultaneous, parallel-path decision process that sometimes can create different outcomes. Whether demand for these new review proceedings will be a trickle or a torrent is uncertain and subject to speculation.

Supplemental Examination

Effectively, supplemental examination provides a new route into the existing *ex parte* reexamination that confers additional benefits. Upon submission of the additional materials that need to be cleansed as prior art, the Patent Office will determine within three months whether the new material presents a “substantial new question of patentability.” If so, then an *ex parte* reexamination will be started, otherwise a certificate confirming patentability will be issued. The Patent Office will be charged with ensuring that no active fraud has occurred and will also need to promulgate regulations on exactly how the additional materials being reviewed must be presented, along with the fees required for a supplemental examination. Successfully navigating a supplemental examination proceeding will protect the patent and the patent owner from charges of

¹² For Inter Partes Review, see AIA, Sec. 6(c)(2)(B)

¹³ For Post Grant Review, see AIA, Sec. 6(f)(2)(A)

¹⁴ For Transitional Program for Covered Business Method Patents, see AIA, Sec. 18(b)(1).

¹⁵ See AIA, Sec. 6(c)(2)(A).

¹⁶ See AIA, New Sec. 321(b).

¹⁷ See AIA, Section 6(c)(2)(B). The number 250 represents a best estimate of the total number of *inter partes* reexamination that were ordered in FY2011 which is what the AIA uses as the triggering level for allowing the USPTO Director to set annual limits on the number of Inter Partes Review proceedings. Exactly how the Director might allocate what could effectively become lottery tickets to participate in an Inter Partes Review during each of the first four years, and what options, if any, are left to those petitioners who may not win one of these lottery tickets in each of those years remains to be seen.

¹⁸ See AIA, Sec. 6(f)(2)(A).

¹⁹ Like the Inter Partes Review, there is statutory authorization for the USPTO Director to impose limits on the annual number of Post-Grant Reviews that will be granted, but there is no minimum number specified for these limits. Post-Grant Reviews are also authorized for interference proceedings “initiated” after September 16, 2012, although the details of exactly how this might work in practice will require further regulations to be promulgated by the Director.

²⁰ See AIA, Sec 18(b)(3).

inequitable conduct, but not the attorney(s) representing them. The effective date for supplemental examinations is one year after enactment and will be available for any issued patent.²¹

Third Party Prior Art Submissions

Currently, third parties are limited to submitting prior art within a short window after publication of a patent application and are handcuffed in their ability to comment on the art submitted. Going forward, in situations where a competitor, for example, is monitoring the progress of a given patent application, that competitor may choose to submit prior art during examination as a way to preempt the issuance of overly broad claims in that patent application. The new process for third party prior art submission will require the submitter to comment on the relevance of the submitted art to the claims under examination.²² The provisions for third party submissions will take effect on September 16, 2012.²³

THE NON-CHANGES

The AIA does not change the contentious patent litigation issues that were hot buttons of the patent reform debate from the beginning (e.g., proposals that would have significantly changed damages, inequitable conduct and venue provisions). Because common ground on these kinds of changes could not be found after several years of debate, and because the need to address at least some of these issues was reduced due to changes in case law over that time, these issues were removed in order to garner support for the remaining provisions of the bill from most, but not all, of the stakeholders.

THE REST OF THE “LITTLE” CHANGES

The AIA bill runs on for more than 150 pages, so there are many changes, most of a minor and technical nature or relating to investigations and reports that the Patent Office will be required to undertake. Some of these changes may have more impact than others. The following is a sampling of these “little” changes:

Limits on Multiple Defendant Lawsuits: The AIA changes one technical aspect of patent litigation that may decelerate the fastest growing area of patent litigation—infringement suits against multiple, different defendants over the same patents. By immediately changing the rules to limit joinder of multiple defendants in patent cases, a patent owner is no longer able to join multiple defendants in the same lawsuit on the same patent based only on the fact that it is a common patent being infringed. This provision went into effect immediately on September 16, 2011,²⁴ and prevents a litigation tactic commonly used by non-practicing entities of filing a single lawsuit against multiple defendants. Whether and how this will change the dockets of patent-heavy districts like the Eastern District of Texas

²¹ See AIA, Sec. 12(h).

²² See AIA, Sec. 8(a).

²³ See AIA, Sec. 8(b).

²⁴ See AIA, Sec. 19(d).

will be interesting to watch. While there could be numerically more lawsuits filed, it is very likely that the total number of defendants being sued there and elsewhere will diminish as a result of the end of multi-defendant patent enforcement suits.

Expanded Prior User Rights: The AIA expands prior user rights as a personal defense to patent infringement based on prior use by that entity. The AIA also expands the scope of the defense from only patents covering computer business method uses to all patents. This expansion of a personalized defense to infringement based on prior use comes as part of the exchange for eliminating secret prior use as a category of “prior art” under the new Section 102 as successfully establishing this defense will not be sufficient to invalidate a patent under Sections 102 or 103. This provision takes effect immediately and applies to any patent issued on or after September 16, 2011.²⁵

Patents owned by universities or tech transfer organizations are subject to an exception from the expanded prior user defense, but this exception does not apply “if any of the activities required to reduce to practice the subject matter of the claimed invention could not have been undertaken using funds provided by the federal government.” This appears to revive the prior user defense against university patents for inventions related to stem cell research or human cloning, as well as any other inventions in research areas that are prohibited from receiving federal funding.

The prior user defense is personal and cannot be transferred in isolation, but can be transferred as part of a larger good faith sale of the business or line of business “for other reasons.” Once transferred, assertion of the prior user defense is limited to “sites” where the “uses” occurred before the later of the effective filing date or the date of transfer of the right. There is also a potential trap for the unwary as the prior use defense lapses for later activities if the prior use was continued for a time, abandoned and then resumed. Unfortunately, there is little guidance in the statute or case law as to how broadly or narrowly these provisions would be applied.

Changes to Marking Requirements—Both False and Virtual: The AIA retroactively changes the requirements for false patent marking lawsuits to significantly limit the flood of *qui tam* cases that had been filed in recent years. Now, allegations of false marking are limited solely to those raised by actual competitors who can prove actual damage as a result of any mismarking. In addition to limiting lawsuits for false patent marking to only those filed by actual competitors, the AIA provides that patent owners may mark their products by using a web page on the Internet. These provisions take effect immediately and apply to court cases pending or commenced on or after September 16, 2011.²⁶

Best Mode Neutered:²⁷ While continuing to remain a technical requirement for a patent application, best mode can no longer be used in litigation as a way to invalidate a patent.

²⁵ See AIA, Sec. 5(c).

²⁶ See AIA, Sec. 16(a)(2) and Sec. 16(b)(4).

²⁷ U.S. Patent and Trademark Office, Acting Associate Commissioner for Patent Examination Policy Robert W. Bahr, Requirement for a Disclosure of the Best Mode (September 20, 2011).

The elimination of failure to disclose best mode as a defense will take effect immediately and shall apply to proceedings commenced on or after September 16, 2011.²⁸ The provision applies to any application filed after the effective date and includes applications claiming priority to applications filed prior to the effective date. There is, however, a technical loophole in how the changes to the law are made that may not remove best mode as a defense for pre-AIA patents claiming priority to an original foreign priority application.

Filing by Assignee: The AIA makes it easier for an assignee to file and prosecute a patent application for any inventors who are under a contractual obligation to assign their inventions.²⁹ The changes will also enable the individual who is under the obligation to effectively execute an oath or declaration within an assignment document. To take advantage of this option, the assignment must include language that the application was made or “authorized to be made” by the declarant and that such individual believes himself/herself to be the original or original joint inventor.³⁰ The ability to use a combined oath and assignment will solve some existing issues when an inventor is willing to sign a declaration but not an assignment as to authority and legal responsibility to represent the inventor as opposed to the assignee.

If an individual who is under an obligation to assign refuses to sign an oath or declaration, the applicant for patent may provide a substitute statement in lieu of the oath or declaration, provided that the obligation to assign exists.³¹ It is expected that employment agreements may be modified to include the language about obligation to assign, preferably in the form of a confirmation of obligation to assign that is a separately executed exhibit or attachment to the employment agreement. This approach would reduce the need for additional consideration in executing the document for existing employees, and may eliminate the need to disclose the entire employment agreement.

One open issue with respect to these new provisions is how the statute and Patent Office regulations will deal with the various state statutes imposing certain limits on an employee’s obligation to assign, e.g., inventions made outside of regular employment and without use of company resources. Assignees can start using these mechanisms starting after September 16, 2012.³²

Priority Examinations: The fast track prosecution option “Track 1” that was almost implemented by the Patent Office last May goes into effect as of September 26, 2011.³³ There will be an initial limit of 10,000 such Track 1, prioritized examination proceedings to allow the Patent Office to evaluate how this program does, or does not, impact the length of normal prosecution.³⁴ In addition, the AIA authorizes the USPTO Director to promulgate regulations related to priority examination of certain “important” technology areas. The

²⁸ See AIA, Sec. 15(c).

²⁹ Sec. 118.

³⁰ Sec. 115(e)

³¹ Sec. 115(d)(1) and 115(d)(2)(B)

³² See AIA, Sec. 4(e)

³³ See AIA, Sec. 10(h).

³⁴ See AIA, Sec. 11(h)(1)(B)(iii).

technology-related priority examination is likely to be similar to current regulations for green technologies and goes into effect on September 16, 2012 after regulations are promulgated.³⁵

Easier Opportunities to Correct Patents: In several places throughout the bill, the AIA removes various requirements that a party show lack of deceptive intent in order to seek some type of correction or modification to the patent by reissue, disclaimer or the correcting of the names of inventors on the patent.³⁶

No Patenting of Human Organisms: The AIA adds a single sentence, stating that "notwithstanding any other provision of law, no patent may issue on a claim directed to or encompassing human organism."³⁷ The provision does not change existing law or longstanding USPTO policy that a claim encompassing a human being is not patentable. The provision merely codifies the existing USPTO policy that human organisms are not patent-eligible subject matter.³⁸

Lower Fees for Micro-Entities: The AIA adds a category for small and start-up patent applicants who would receive a 75 percent reduction in Patent Office fees.³⁹ These newly defined "micro-entities" will include higher education organizations.

Willful Infringement: The AIA codifies current case law on willful infringement to the extent that the failure to obtain or present advice of counsel shall not be considered as a factor in determining willful infringement.⁴⁰

No Patents for Tax Strategies:⁴¹ Any strategy for reducing, avoiding or deferring tax liability will be insufficient to differentiate a claimed invention of the prior art whether the strategy was known or unknown at the time of the invention or filing. However, a method, apparatus, technology, computer program, or system that is not covered under the new provision if it is (1) used solely for preparation of a tax return or other tax filing, or (2) used solely for financial management to the extent it is severable from any tax strategy and does not restrict the use of the tax strategy by any taxpayer or tax advisor. The effective date for the tax strategies provisions is immediately upon enactment and will apply to patents issued or pending on that date.⁴²

³⁵ See AIA, Sec. 25.

³⁶ See New 35 USC § 116, 251, 253, 256, and 288.

³⁷ See AIA, Sec. 31.

³⁸ U.S. Patent and Trademark Office, Acting Associate Commissioner for Patent Examination Policy Robert W. Bahr, Claims Directed to or Encompassing a Human Organism (September 20, 2011).

³⁹ See AIA, Sec. 10(b).

⁴⁰ See AIA, Sec. 17(a), New 35 USC § 298.

⁴¹ U.S. Patent and Trademark Office, Acting Associate Commissioner for Patent Examination Policy Robert W. Bahr, Tax Strategies are Deemed to be Within the Prior Art (September 20, 2011).

⁴² See AIA, Sec. 14(e).

CONCLUSIONS

Although general observations and predications can be made regarding how the patent community will react to the AIA, there are relatively few hard and fast conclusions. Certainly, any time the rules of the game are changed as significantly as they will be under the AIA, there is an overhead costs during the transition period associated with educating the patent community and beginning to incorporate the new rules. There also are rumors of potential technical clarification and/or corrective legislation in store for the next Congress, but at this point, those are just rumors. There also will be a significant amount of future rule making and case law that will happen with respect to the AIA. Hopefully, the Patent Office will take an active role in interpreting the AIA by making strong and effective use of *Chevron* deference and *BrandX* agency authority to promulgate rules and statutory interpretations that the courts can and will utilize in the future.

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