SUBSTANTIAL U.S. PATENT STATUTE REVISIONS SIGNED INTO LAW ON SEPTEMBER 16, 2011

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Introduction

Substantial revisions to U.S. patent law (repeatedly touted as "patent reform") has been proposed numerous times over the past decade with no real expectation of passage until now. After passing the United States House of Representatives and the United States Senate with overwhelming support, the *Leahy-Smith America Invents Act* (H.R. 1249 and S. 23) was signed into law by President Obama on September 16, 2011. This enactment represents the first major changes to the U.S. patent system since the *Patent Act of 1952*.

Summary and Discussion of the Changes to Title 35

Below is a sample of the most important changes to Title 35. This list is by no means exhaustive and merely provides a highlight of the most important provisions.

1. *Satellite Offices*

The U.S. Patent and Trademark Office ("USPTO) is now required to create and operate a satellite office in Detroit,[1] as well as create and operate two more additional satellite offices within three years.[2] The USPTO satellite office in Detroit will be named the "Elijah J. McCoy United States Patent and Trademark Office."[3]

2. *Important Fee Changes*

A. *Fee Increase*

For most, the new law provides for increased fees – a 15% surcharge, for almost all fees, including fees for original filings, examination, continued examination and maintenance. These new fees go into effect just ten (10) days after enactment, i.e., **September 26, 2011**.

B. *Fee Reductions*

Some, however, will actually benefit from a fee reduction. As part of the ongoing effort to nurture U.S. innovation, the new law creates a category of "micro entities" that are entitled to a 75% fee reduction fee reduction. An entity qualifies as a micro-entity if it is 1) an institute of higher education or 2) is a group of inventors that includes single inventors or those inventors who are smaller than "small business entities." The creation of the "micro-entity" category was done to ensure that the USPTO can tailor its requirements, and its assistance, to people with very little capital, and just a few inventions, as they are starting out.[4] This provision was effective upon enactment, but will sunset after 7 years.

3. *First Inventor to File*

The United States has long operated under a "first-to-invent" system where a priority of patent rights is based on which patent applicant actually invented the claimed invention first. Under this system, invention is generally defined to comprise two steps: (1) conception of the invention and (2) reduction to practice of the invention. When an inventor conceives of an invention and *diligently* reduces the invention to practice (by filing a patent application, by practicing the invention, etc.), the inventor's date of invention will be the date of conception. Thus, provided an inventor is diligent in actually reducing an application to practice, he or she will be the first inventor and the inventor entitled to a patent, even if another files a patent application, constructively

[1] *Id*.
[2] *Id*.
[3] *Id* at 56.
[4] *Id* at 50.

reducing the invention to practice, before the inventor.[5] Therefore, in the U.S., the right to a patent was based on which applicant actually invented the claimed invention first.[6]

The House Judiciary Committee discussed several motivations for creating a new "first-inventor-to-file" system including, but not limited to, flaws in the current patent system, changes to the economy and to patent litigation practices, the tendency of recent Supreme Court decisions to move "in the direction of improving patent quality and making the determination more efficient," and the benefit to U.S. patent holders of "harmonizing our system" with the "best parts" of other major patent systems throughout the world. This new system adopted by the changes in the law brings the U.S. patent system in line with many other nations, most of which use a "first-to-file" system, thereby awarding patent rights based on the patent application filing date.[7]

However, where traditional "first-to-file" systems have not provided the inventor any grace period during which time he is allowed to publish his invention without fear of later becoming prior art to be used against him, the new system proposed by the Committee provides patent applicants the efficiency of the first-to-file system while providing inventors the benefit of the U.S. 1-year grace period[8] This grace period would continue to protect an applicant's own publication or disclosure that occurs within 1 year prior to filing and will ensure that the same publication or disclosure will not act as prior art against his application, giving the applicant the time needed to prepare and file the application. Similarly, disclosure by others during that time, based on information obtained directly or indirectly from the inventor, will not constitute prior art. Thus the law creates rights to an invention based on the filing date, thereby eliminating the need for interference proceedings to determine when each applicant truly invented the claimed invention.[9] Additionally, the Act provides a new administrative proceeding called a "derivation" proceeding to ensure the first person to file is actually a true inventor.

In addition, the prior art sections of Title 35 are amended. Included in these revisions is 35 U.S.C. § 102, which has been amended such that all prior art would be measured against the filing date, and the distinctions between prior art documents and events based on where they were published or took place (*i.e*., inside or outside the United States) would be removed so that prior art "includes all art that publicly exists prior to the filing date" (and § 103 would also be amended to conform with the new § 102).[10] A new § 102(c) would also be included, which would encourage joint research agreements by setting out that subject matter disclosed in earlier filed applications and patents will not be prior art against later filed applications when the subject matter disclosed and the claimed invention were developed and made as part of a joint research agreement.[11] With these changes the ability to "swear behind" certain reference is eliminated.

The "first-to-file" changes are not effective until Feb. 19, 2003. Until then, the USPTO's traditional "first to invent" rule is still in effect.

4. *Inventor's Oath and Declaration*

The U.S. has long required that the inventor must file the application, not the company-assignee.[12] However, by the time an application is eventually filed, the applicant inventors may no longer be located to obtain the necessary signatures. Although the USPTO has adopted regulations to allow filing of an application when the inventor's signature is unobtainable, many have advocated for modernization of the statute.[13] Thus, the law updates section 115 of the patent system by facilitating the process by which an assignee may file and prosecute patent applications.[14]

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[5] MPEP§ 2138.05 "Reduction to Practice"
[6] *Id*.
[7] H.R. Rep. No. 112-98, at 40.
[8] *Id* at 41.
[9] *Id* at 42.
[10] *Id*. at 42-43.
[11] . *Id*. at 43; H.R. 1249 § 3.
[12] *Id* at 43.
[13] *Id*.
[14] *Id* at 43 – 44.

5. *Patent Trial and Appeal Board*

The law renames the Patent Board the "Patent Trial and Appeal Board" and sets for expanded duties to include jurisdiction over the new post-grant review and derivation proceedings.[15]

6. *Derivation Proceedings*

The law also sets out a new derivation proceeding in 35 U.S.C. §135. In this proceeding, a patent applicant may file a petition within one (1) year after publication of an application that contains the same or substantially the same claim, seeking a determination that the named inventor of the published application derived the claimed invention from the petitioner. The proceedings are held before the new Patent Trial and Appeal Board ("PTAB")(see section 8 below), and if derivation is found, the PTAB may "correct the naming of the inventor in any application or patent at issue. The PTAB may decide to defer action until three (3) months after the patent issues, or after termination of post-issuance procedures. This provision is effective February 19, 2013.

7. *Preissuance Submissions by Third Parties*

Under the old law, a third party was permitted to submit information to the USPTO that is relevant to a pending application, but the third party was precluded from explaining the relevancy of such submitted information.[16] The new provision permits third parties to make statements concerning the relevance of the submitted materials.[17] Further, the timing of the action taken by third parties is slightly more relaxed than the previous deadline of two (2) months of publication. Under the new law, the submissions must be made before the earlier of i) a notice of allowance or ii) the later of (a) six (6) months after the application is first published or (b) a first claim rejection.

8. *Post Issuance Procedures*

The new law amends the U.S. *ex parte* and *inter partes* reexamination procedures and establishes a new post-grant review procedure and an *inter partes* review procedure.[18] Under the old law law, there were two ways to challenge the validity and enforceability of an issued patent:[19] a) district court litigation or b) a reexamination at the USPTO.[20]

The new law expands the category of documents that may be cited in a reexamination proceeding (as well as the new post-grant review and *inter partes* review) to include written statements of the patent owner that have been filed in a proceeding before a Federal court or the USPTO regarding the scope of claims.[21] However, these statements are only usable to determine "proper meaning of a patent claim."

The new law also amends the *ex parte* reexamination procedure to allow the Director to institute a reexamination on the Director's own initiative if a substantial new question of patentability is raised by patents or publications.[22]

A new post-grant review procedure has been enacted (effective September 16, 2012), that can be utilized within nine (9) months following the issuance of a patent or a reissue patent.[23] Unlike the prior reexamination proceedings, which provide only a limited basis on which to consider whether a patent should have issued, newly enacted post-grant review proceeding permits anyone but the patent owner or a petitioner that previously filed a civil action challenging validity, to petition for cancellation of a patent claim based on *any* ground of invalidity under section 282.[24]

Inter partes reexamination is converted from an examinational to an adjudicative proceeding, and is renamed "*inter partes* review."[25] Petitions for *inter partes* review may be filed after nine (9) months following the

[15] *Id* at 48.
[16] *Id* at 48 – 49.
[17] *Id*. at 49.
[18] *Id* at 45.
[19] *Id*.
[20] *Id*.
[21] *Id* at 46.
[22] *Id*.
[23] *Id* at 47.
[24] *Id*.
[25] *Id* at 46 – 47.

issuance of the patent or after termination of a post grant review, which ever is later. However, *inter partes* review is limited to invalidity challenges based on prior art patents and publications. If a petitioner is served with a complaint for patent infringement, a petitioner only has one (1) year to file a petition for *inter partes* review.

9. *Supplemental Examination*

A supplemental examination procedure has been created so that information that was not considered (or perhaps was inadequately considered) by the USPTO could be submitted.[26] If the USPTO determined the information did not present a substantial new question of patentability or that the patent is valid, the information could not be used later to support a claim of inequitable conduct.[27]

10. *Defense to Infringement Based on Earlier Inventor*

Under the prior version of 35 U.S.C. §273, alleged infringers could employ a "prior-use" defense only when the patent in question is a business method patent and the accused infringer can show that he had practiced the claimed method in the U.S., more than a year prior to the patent's filing date.[28] Other countries have a much more expansive prior-use regime.[29] The new version of 35 U.S.C. §273 provides that: first, the prior-use defense may be asserted against *any* patent (not just method patents);[30] second, the defense cannot be asserted if the subject matter was derived from the patent holder or persons in privity with the patent holder;[31] and third, the defense cannot be asserted unless the prior user both reduced the subject matter of the patent to practice and commercially used it at least (1) one year before the effective filing date of the patent or the date that the patentee publicly disclosed the invention and invoked the §102(b) grace period, whichever is earlier.[32]

11. *Best Mode Requirement*

As of the date of enactment, 35 U.S.C. §282(b) has been amended to eliminate as a defense to patent infringement the patentee's failure to comply with the best mode requirement, which is still required by §112.[33]

12. *Marking*

Virtual Marking

The patent marking requirement has been modified such that it permits patentees to "virtually mark" their products by labeling the articles with an address of a publicly available website that associates the patented article with a patent number.[34]

False Marking

In order to quell a "recent surge" in *qui tam* false marking litigation, only the United States Government can seek the $500-per-article fine (which previously was split between the government and a party bringing a false marking claim).[35] Third party competitors can only recover in relation to the actual damages (if any can be proven) that they have suffered as a result of false marking.[36]

13. *Advice of Counsel*

A new provision has been added, §298, that "bars courts and juries from drawing an adverse inference from an accused infringer's failure to obtain opinion of counsel as to infringement or his failure to waive privilege and disclose such an opinion."[37] The new section applies to findings of willfulness and intent to induce infringement.[38]

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[26] *Id* at 51.
[27] *Id*.
[28] *Id* at 44.
[29] *Id*.
[30] *Id*.
[31] *Id*.
[32] *Id*.
[33] *Id* at 52.
[34] *Id*.
[35] *Id* at 53.
[36] *Id*.
[37] *Id*.
[38] *Id*.

14. Transitional Program for Covered Business Method Patents

To address concerns regarding the large numbers of questionable business method patents issued during the late 1990's through the early 2000's that led to numerous lawsuits and compelled the launch "the patent reform project" 6 years ago due to an alleged lack of examiners and a dearth of available prior art,[39] a post-grant review of business method patents for a review of the validity of any business method patent has been established. The transitional program is to last ten years after the regulations are issued.[40]

15. Jurisdictional and Procedural Matters

State Court Jurisdiction and the U.S. Court of Appeals for the Federal Circuit

The jurisdiction of the US district courts has been clarified, as well as the jurisdiction of the US Court of Appeals for the Federal Circuit over appeals involving *compulsory* patent counterclaims.[41] The legislative history of this provision, which was adopted for this Act, appears in the Committee Report accompanying H.R. 2955 from the 109th Congress.[42]

Joinder

Chapter 29 of the Patent Act was amended by creating a new §299 that addresses joinder under Rule 20 and consolidation of trials under Rule 42.[43] Pursuant to the provision, parties who are accused infringers in most patent suits may be joined as defendants or counterclaim defendants only if: (1) relief is asserted against the parties, jointly, severally, or in the alternative, arising out of the same transaction regarding the manufacture, use, or importation of the accused product or process; and (2) questions of fact common to all of the defendants will arise in the action.[44] New §299 also clarifies that joinder will not be available if it based solely on allegations that a defendant has infringed the patent(s) in question.[45]

16. Patent and Trademark Office Funding and Fee Setting Authority

The USPTO is a fee-funded agency. The revenue it collects from fees imposed on inventors and trademark filers is deposited in a special USPTO appropriations account in the Treasury.[46] Historically, to obtain funding for its operations, the agency was required to request the revenue back from congressional appropriators.[47] However, since the early 1990's, more than $800 million in collected fees has been diverted from the agency and spent on non-USPTO initiatives.[48]

Grounded in the belief that the USPTO could operate more efficiently and productively if the agency had full access to all of its fee-generated revenue,[49] the House bill created a USPTO revolving fund within the Treasury that allows the agency to keep all of the funds it raises until expended.[50] The provision also requires the Director to submit an annual spending plan as well as an annual year-end report to the House and Senate Appropriations and Judiciary Committees.[51]

Under the old law, the patent system allowed the USPTO to set certain fees, although most fees are set by Congress.[52] In an effort to allow the USPTO to respond promptly to ongoing challenges, the new law also provides the USPTO the ability to set or adjust all of its fees, so long as they do not more than reasonably compensate the USPTO for the services performed.[53]

Conclusion

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[39] *Id* at 54.
[40] *Id*.
[41] *Id*.
[42] *Id*.
[43] *Id*.
[44] *Id* at 54 – 55.
[45] *Id* at 55.
[46] *Id*.
[47] *Id*.
[48] *Id*.
[49] *Id*.
[50] *Id*.
[51] *Id*.
[52] *Id*.
[53] *Id*.

While not everyone will agree with the changes that have been implemented by the America Invents Act of 2011, the uncertainty of the past several years is now at an end. A majority of the provisions have taken effect immediately and a select set of provisions take effect one (1) or more years following the date of enactment and shall apply to any patent issued on or after that date. If you have further questions or concerns regarding the pending legislation, a full copy of the *Leahy-Smith America Invents Act* may be found at S. 23 and the House Report may be found at H.R. 1249, or contact us directly.