by Rod S. Berman

Something NEW under the Sun

The Patent Reform Act of 2011 represents the first major overhaul of patent law since 1952

AFTER PASSING CONGRESS with bipartisan support, the Leahy-Smith America Invents Act, also known as the Patent Reform Act,[1] was signed by President Barack Obama on September 16, 2011. The new law significantly reforms the way inventors protect their inventions and advances the harmonization of global patent laws, but until many details of implementation are settled, the costs of patent litigation may not decrease.

The U.S. Patent Office was founded in 1790, and few significant revisions to patent law have been made since. The last major reform occurred in 1952, with the enactment of the patent laws encompassing Title 35 of the United States Code.[2] The first steps toward modernizing U.S. patent laws were taken in 2004, when academics began to push for reform, which moved slowly until debate began on the House floor last June.

The Patent Reform Act contains many important changes, including:

• Giving the patent right to the first person to file a patent application rather than the first to invent.

• Eliminating the esoteric interference practice in which owners of applications for the same invention litigated who was the first to conceive of the invention and reduce it to practice.

• Expanding defenses to patent infringement claims to include the defense of prior commercial use of the patented invention.

• Increasing the means for challenging patents, including making it easier for competitors to submit invalidating prior art to the Patent Office and providing for new ways to challenge patents after they issue.

• Providing a method by which patent owners can cure potentially invalidating mistakes made by the applicant during the processing of a patent application.

• Eliminating lawsuits targeting companies for mistakenly marking products with the wrong patent number and

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making it more difficult to file multidefendant lawsuits.

• Eliminating patents on tax strategies.

• Providing a new method for expediting the issuance of patents.

The most significant change in the Patent Reform Act is the conversion from a "first to invent" system to a "first to file" system, thereby conforming the U.S. patent laws to the laws of most industrialized countries.[3] This change becomes effective on March 16, 2013. Presently, even if an applicant is the first to file a patent application in the United States, a second applicant to file could own the rights to the invention if the second applicant was the first to conceive and reduce the invention to practice. This provides a disincentive to file patent applications, since the first to invent generally trumps the first to file. Most of the world acts differently—the first to file trumps the first to invent. Now, under the Patent Reform Act, on or after March 16, 2013, in general the one who is first to file a patent application will own the patent rights.

Inventors need to rethink their strategy for filing patent applications. No longer will they be able to wait to develop their inventions and create a workable mode of making and using them. There will now be a rush to file a patent application before a competitor does. The filing of less-than-perfect patent applications and more provisional patent applications will likely increase. Inventors will be pressed to gather data quickly and file a separate patent application at each stage of product development. The first-to-file rule will likely favor large companies that have the resources to quickly prepare and file patent applications. Most of the world has already accepted this fact. The United States is just catching up.

The first-to-file reform also will eventually eliminate the esoteric "interference" practice. In interference proceedings, companies wage an expensive war over who was the first to invent the subject matter of competing patent applications. Specially trained attorneys have typically handled these proceedings, frequently delaying the effectiveness of a patent for many years. During these proceedings, doubt about who owns the patent rights significantly affects investor interest.

Although reform has eliminated interference practice, it will be replaced with derivation practice.[4] In a derivation proceeding, a petitioner asks the new Patent Trial and Appeal Board to invalidate a patent if it was based upon or derived from another inventor's patent or patent application.[5] However, this proceeding must be requested within a year of the date of publication of the first filer's patent application and must be supported by substantial evidence.[6] Entities should therefore monitor their competitors' applications for derivation issues. Even derived inventions, however, typically include novel features. Moreover, inventors who derive their inventions from others may be more likely to keep their inventions secret, thereby frustrating the fundamental constitutional purpose of the Patent Act—full disclosure of an invention to the public in return for a limited period of market exclusivity.

Reexaminations

The Patent Reform Act also makes major changes in the manner in which third parties

can challenge patents outside of court proceedings.[7] Previously, aside from litigating the validity of a patent, the only ways to challenge the validity of an issued patent were to seek ex parte or inter partes reexamination before the Patent Office. This procedure required the requester (the patent owner or the challenger of the patent) to ask the Patent Office to declare that prior art submitted in the form of patents or printed publications created a substantial new question about the patentability of the claims of the patent.

Effective September 16, 2012, a new procedure called Post Grant Review will affect applications filed on or after March 16, 2013.[8] PGR will allow a third party, typically a competitor, to convince the Patent Office's Patent Trial and Appeal Board that the patent should not have been granted due to prior art that the Patent Office was either not aware of or did not properly consider when the application was initially examined. The standard for the Patent Office to grant a PGR petition is whether the information presented in the petition "if not rebutted…would demonstrate to the Patent Office Examiner that it is more likely than not that at least one of the claims challenged is unpatentable" or that the petition "raises a novel or unsettled legal question that is important to other patents or patent applications."[9] PGR has been available for many years in a number of foreign jurisdictions, but to U.S. applicants, it presents a significant reform.

To some, PGR provides a competitor with the chance to delay the effectiveness of a patent, since the patent cannot be enforced while it is under review. Those opposed to this provision of the Patent Reform Act also asserted that only large entities with financial resources will be able to afford the proceedings, and that the proceedings would unduly burden the Patent Office. To others, PGR provides an opportunity for the Patent Office to vet patents under the scrutiny of those whom the patent would be enforced against and presumably to increase the quality of the patents. A likely result is narrower patents, particularly in technical fields with significant patent prior art, as the applicant will initially want to seek patent protection for claims that can readily be distinguished from the prior art. PGR can be based upon any legal challenge to the patent but can only be filed within nine months after the grant of the patent or broadening reissue.[10] One significant limitation to PGR is that the petitioner is estopped from asserting the same grounds that it asserted in its PGR petition in any subsequent federal court action challenging the patent.[11] Moreover, PGR cannot be instituted if the petitioner has already filed a civil action for patent invalidity.[12] Any civil action for patent invalidity is automatically stayed in favor of a PGR filing until the patentee successfully lifts the stay, the patent owner files a civil action or counterclaim for infringement, or the petitioner moves the court to dismiss the civil action.[13] Companies will need their patent counsel to monitor competitors' patent filings. Any person or entity seeking to avoid PGR should file a patent application before March 16, 2013.

The Patent Reform Act also establishes a supplemental examination system for patent owners that allows inequitable conduct to be cured prior to patent infringement litigation. Prior to the Patent Reform Act, the Federal Circuit referred to claims of inequitable conduct as being a plague upon patent litigation because they were so often asserted—at great cost to defendants—but made few patents unenforceable. These claims also poisoned patent transactions by reducing the value of patent assets. This problem resulted when the validity or enforceability of a patent involved in a transaction was called into question by the buyer due to mistakes made by the patent applicant or newly discovered evidence related to the patent.

The new supplemental examination procedure, like the former ex parte reexamination, can result in inequitable conduct being purged and unenforceability and invalidity challenges to patents avoided—or at least the risk of a finding of invalidity or unenforceability reduced.[14] The supplemental examination procedure becomes effective on September 16, 2012, for patents issued on or after that date. While advantageous to those who wish to assert patent validity, the procedure is limited to issues of validity or unenforceability related to patents and printed publications raising a substantial question of patentability, and the procedure may only be initiated by the patent owner.

This procedure should give patent owners an opportunity to cure obvious prosecution problems that could result in a claim of inequitable conduct being asserted against the plaintiff patent owner in patent infringement litigation. On the other hand, those opposed to this reform believe it will encourage patent applicants from disclosing key prior art to the Patent Office, with the hope that the lack of disclosure will result in the issuance of the patent, with the only risk being the possibility of having to file a request for supplemental examination.

For plaintiffs, supplemental examination may result in some added expense and delay but also may provide security. This procedure may be helpful in patent purchase transactions in which a buyer questions a key valuable patent as being potentially unenforceable and therefore of little value.

Another way reformers believe the quality of patents will improve is that on or after September 16, 2012, third parties can submit to the examiner handling a patent application prior art in the form of patents and printed publications or statements of the patent owner made in federal court or before the Patent Office that reflects the owner's position on the scope of any claim that the third party believes impacts the patentability of the invention.[15]

Tax Patents

There is even reform of interest to taxpayers, entrepreneurial accountants, and tax lawyers. The media has reported a plethora of objections to providing a patent "monopoly" for methods for complying with tax codes. No more patents will issue on tax strategies for reducing, avoiding, or deferring tax liability in any federal, state, local, or foreign jurisdiction when the patents could subject taxpayers to royalty fees for using the patented strategy when filing tax returns. Significantly, this tax patent ban applies to patent applications pending as of September 23, 2011, or those patents issued on or after this date.[16] But the reforms only go so far—patents related solely to financial services management software or tax return preparation and filing software are not affected.[17] Notably, in addition to certain tax patents, patent claims directed to or encompassing a "human organism" are banned for applications filed on or after September 23, 2011.

Prioritized application processing is another feature of the Patent Reform Act. Since September 26, 2011, the Patent Office has allowed applicants to pay $4,800 to have their application prioritized, provided the application contains no more than four independent claims and no more than 30 total claims, which is achievable for most inventors with clever patent attorneys.[18] In other words, entities that can afford paying an extra $4,800 will speed up the processing of their patent applications without having to conduct a preexamination search. This is a welcome patent reform for those who can afford it and whose inventions are in the telecommunications, biotechnology, computer software, and electronics arts, in which the average pendency of a patent application is three to four years. With prioritized examination, the Patent Office is required to provide the patent applicant with a final disposition from the Patent Office within a year of the grant of prioritized status. For inventions that have a short market life, or for those who want a patent to issue as soon as possible for either enforcement or sale, this reform should be of great benefit, since patent rights only arise upon the issuance of a patent and end 20 years after the effective filing date. There are few downsides to prioritized examination. Probably the most significant one is that the Patent Office is limiting prioritized applications to 10,000 annually.

The Patent Reform Act has also expanded the prior commercial user defense to patent infringement so that it is no longer limited to patents directed to methods of doing business.[19] The expansion of this defense is a significant patent reform and can be used with respect to patents issued on or after September 16, 2011. To prove this defense, the defendant must demonstrate by clear and convincing evidence that it commercially used the patented technology in the United States more than a year before either the effective filing date of the asserted patent or a public disclosure by the inventor of the invention.[20] Notably, the defense may only be asserted by the commercial user. If the defense is unreasonably asserted, the patent-owner plaintiff may have a solid basis to seek an award of its attorney's fees. In addition, the defense can only be assigned as part of the sale or transfer of the entire business of the patent challenger.[21] This reform, unfortunately, may encourage entities to keep innovations secret, contrary to the constitutional purpose of the Patent Act.

Patent Marking

Pesky qui tam false marking lawsuits have also been virtually eliminated under the Patent Reform Act. In these suits, plaintiffs and even law firms allege that the defendant entity intentionally sold products marked with expired patent numbers or unrelated patent numbers in an attempt to reduce competition and deceive the public. Now these claims will be limited to lawsuits filed by the U.S. government or those filed by competitors who can show competitive injury, and they may seek only compensatory damages.[22] This is great news to businesses and bad news to those who have scoured retail stores to find products with incorrect or out-of-date patent notices. While considered a statutory patent law reform, this is really a reform of a decision by the Federal Circuit,[23] which ruled that the $500 false marking penalty applied to each falsely marked item, not just each patent. So, if, for example, a company mistakenly left an expired patent number on billions of once-patented drinking cups, the litigant could seek billions of dollars of damages. For manufacturers, one of the benefits of this legislative reform is to remove from actionable conduct the marking of a product with an expired patent number, provided the patent at one time did cover the product marked.[24] Manufacturers will not need to spend the resources to eliminate patent numbers in costly molds once the patent has expired. Not surprisingly, those opposed to this reform believe it will encourage companies to retain patent markings on products in order to deceive competitors into believing the product is still covered by the patent.

Other litigation reforms include limitations on so-called nonpracticing entity patent plaintiffs—those who buy patents for the only purpose of seeking royalties. In the past, patent plaintiffs could add numerous defendants to the same complaint, provided all the defendants were alleged to infringe the same patent. Often, 20 or more party defendants would be pleaded in order to realize economies of scale by suing multiple defendants with the time and expense of filing a single action, including reduced attorney and expert fees. This created significant problems for defendants because while the cost of suing multiple defendants was only marginally more than suing a single defendant, defendants often had to bear significant costs, particularly in discovery, that usually dwarfed a plaintiff's proposed settlement. It also allowed plaintiffs to sue defendants in plaintiff-friendly venues, such as the remote Eastern District of Texas. In addition to the cost of defending claims, defendants often faced the prospect of discovery of their highly confidential business information in the same case that also may involve a direct competitor. As a result, this type of litigation often made defendants willing to pay to settle the claims for an amount that was less than the cost of a defense budget.

Now, for all lawsuits filed on or after September 16, 2011, multiple defendants may only be included in the same complaint if all the defendants participated in the same alleged act of infringement and there are common questions of fact—generally meaning they all sold the same product.[25] This should be of great benefit to those have been sued, since it reduces the patent plaintiff's economy of scale in litigating these cases. The question remains, however, whether a court confronted with a plethora of patent claims involving different alleged infringing products and different defendants will consolidate them, even if only for pretrial proceedings, thus reducing the hoped-for cost benefits.

Despite its mechanisms to conform the U.S. patent process with that of other industrialized nations, the Patent Reform Act's uncertainties will likely cause patent litigation to become even more expensive, at least at the outset. For example, the Patent Trial and Appeal Board will need rules to handle discovery. Time will tell how much the Patent Reform Act actually saves businesses money. ■

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1 Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011), *available at* http://www.gpo.gov/fdsys/pkg/BILLS-112hr1249enr/pdf/BILLS-112hr1249enr.pdf.
2 35 U.S.C. §§101 *et seq*.
3 35 U.S.C. §102.
4 35 U.S.C. §135(a).
5 35 U.S.C. §135(b).
6 35 U.S.C. §135(a).
7 For more information, *see* Ben M. Davidson, *Reexamining Reexaminations,* Los Angeles Lawyer, Dec. 2011, at 26.
8 35 U.S.C. §321(a), (b).
9 35 U.S.C. §324(a), (b).
10 Another procedure for challenging issued patents, inter partes review, effective September 16, 2012, allows a petitioner to challenge a patent nine months after the patent issues based upon limited prior art. 35 U.S.C. §§311(b), 314(a).
11 35 U.S.C. §325(e)(1).
12 35 U.S.C. §325(a)(1).
13 35 U.S.C. §325(a)(2).
14 35 U.S.C. §257(c)(1).
15 35 U.S.C. §122(e).
16 H.R. 1249 §14(a).
17 H.R. 1249 §14(c).
18 35 U.S.C. §2(b)(2)(G).
19 35 U.S.C. §273(a).
20 35 U.S.C. §273(a)(2).
21 35 U.S.C. §273(e)(1).
22 35 U.S.C. §292(a), (b). For more information on patent marking reform, *see* Thomas J. Daly & Daniel R. Kimbell, *Bad Marks,* Los Angeles Lawyer, July/Aug. 2011, at 30.
23 Forest Group Inc. v. Bon Tool Co., 590 F. 3d 1295 (Fed. Cir. 2009).
24 35 U.S.C. §292(c).
25 35 U.S.C. §299(a).