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September 14, 2011

## CLIENT ALERT

### *Patent Reform Legislation Update*

The Leahy-Smith America Invents Act ([the Act](#)), which represents the most significant change to the U.S. patent system since the Patent Act of 1952, is expected to be signed into law by President Obama on September 16, 2011.

Most notably, the Act changes the U.S. patent system from a “first-to-invent” system to a modified “first-to-file” system, provides new procedures for challenging the validity of patents before the USPTO, provides a post-issuance mechanism for curing acts or omissions during prosecution that could be construed as inequitable conduct, establishes virtual marking, and limits the scope of joinder. Most of the provisions provided by the Act will take effect between 12 and 18 months following its date of enactment, however, some provisions take effect upon enactment and are listed at the [bottom of this letter](#). A [detailed summary of the Act](#) can be found at our web site: [www.woodcock.com](http://www.woodcock.com). Some of the more significant provisions of the Act are described below.

**First Inventor to File System** – The Act bases priority of a patent or patent application on the date an application disclosing the claimed invention is filed, as opposed to the current system, which is based on conception date. There is an exception to the new framework that awards priority to an inventor who is the first to publicly disclose the invention and subsequently files a patent application describing the invention within one year of the earlier public disclosure. Caution should be exercised when deciding to publicly disclose however, because the disclosure could prejudice patent rights in other countries.

The scope of prior art under 35 U.S.C. § 102 has been significantly changed and in some aspects expanded. As stated in this section, a person shall be entitled to a patent unless the claimed invention was patented, described in a printed publication, or in public use, on sale, or *otherwise available* to the public before the effective filing date of the claimed invention. The Act does not elaborate on the meaning of “otherwise available.” The Act no longer requires that public use or sale occur in the United States. Furthermore, prior art will include any patent application published under § 122(b) having a prior effective filing date; thus prior art will include certain US applications based on their foreign filing dates.

The “first to file” provisions take effect 18 months after enactment, which is currently expected to occur on September 16, 2011. Therefore, the first-to-file provisions are expected to take effect on March 16, 2013 and will apply to any application, or patent issuing thereon, that contains or contained a claim to an invention that has an effective filing date that is on or after that date. For example, if an application has or had a claim that is entitled only to a filing date on or after the first-to-file effective date, the entire application would be examined under the first-to-file framework.

**Defense to Infringement Based on Prior Commercial Use** – Under the current version of 35 U.S.C. § 273 individuals may defend against an allegation of infringing a patented *business method* by proving that she/he reduced the method to practice and also used the method in a commercial manner prior the effective filing date of the asserted claim(s). The Act expands the applicability of this defense to patented subject matter consisting of a process, a machine, manufacture, or composition of matter used in a commercial process provided that the alleged infringer commercially used the subject matter in the United States and such use was 1 year before the effective filing date of the patent claims (or the date the claimed invention was disclosed to the public, if so disclosed). The Act also removes the requirement that the person asserting the defense must have reduced to practice the claimed subject matter, which is consistent with the first inventor to file framework of the Act. The defense would *not* apply to instances where the activity required to reduce the invention to practice could not have been conducted using federal funding (*e.g.*, certain types of stem cell research). This provision will apply to patents issued on or after the date the Act becomes law.



**INTELLECTUAL PROPERTY LAW**  
ATLANTA • PHILADELPHIA • SEATTLE

Woodcock Washburn LLP  
Page 2 of 4

**Post-Grant Review Proceedings** – Currently, the validity of a patent can be challenged via *ex-parte* reexamination or *inter-partes* reexamination. The Act does not significantly change *ex-parte* reexamination. *Inter-partes* reexamination however, will be replaced with a new *inter-partes* review process. And, a new post grant review (PGR) process is provided by the Act, which allows any third party to challenge a patent after it is granted. A PGR request must be filed within 9 months of issuance of an original or reissued patent, and must either identify at least one claim that is “more likely than not” to be unpatentable, or raise a novel or unsettled legal question. Proceedings will be held before the newly constituted Patent Trial and Appeal Board (PTAB) and should be completed within 1 year (with a possible extension of 6 months for good cause). Limited discovery will be provided. Final decisions can be appealed to the Federal Circuit. PGR is not available to a petitioner that has previously filed a declaratory judgment action alleging invalidity of the same patent. In addition, the PGR process prevents the use of the *inter partes* review process (the new adaptation of *inter partes* reexamination) during the first 9 months after a patent issues, unless a PGR proceeding for that patent has already concluded. This provision of the Act will take effect 1 year after enactment and will apply to patents issued *before, on, or after* the effective date. Thus, validity challenges before the USPTO will be available via *ex-parte* reexamination, via PGR (if within 9 months of issuance) or by the *inter-partes* review process (if after 9 months). *Ex-parte* reexamination will be before reexamination unit. PGR and *inter-partes* review will be before the 3-member panel of the PTAB. Estoppel provisions apply to both PGR and *inter-partes* review for any ground raised or reasonably could have been raised during subsequent validity challenges before the USPTO and district courts.

**Preissuance Submissions by Third Parties** – The Act provides a new process allowing third parties to submit printed publications of potential relevance to examination to the patent office in order to challenge a patent application prior to issuance. The submission must be made before the earlier of (1) the date of a notice of allowance or (2) the later of six months from the date of publication of the application or the date of first rejection under § 132 of any claim. Challengers of potential patent claims may wish to closely monitor the prosecution of applications of relevance to their fields and conduct prior art searches for documents for submission prior to issuance of those claims. Given the limited submission period provided by this section, it may be advantageous to monitor published PCT applications filed by applicants of interest, since they may publish before their corresponding U.S. patent applications. Third party submission of a document prior to grant, however, should be carefully considered since pre-issuance submission of a document may prejudice its later use as grounds for a post-grant review or *inter partes* reexamination in view of the standards for initiating those proceedings. At the same time, an applicant for patent can take advantage of those same standards in the event of a third party submission during prosecution of its application by providing a persuasive explanation of the lack of relevance of the document. This provision will become effective one year from the date of enactment and will apply to any then-pending or subsequently filed application for patent.

**Fees For Patent Services** – This provision of the Act codifies the current fee schedule and provides for a 15% surcharge for certain fees. More specifically, a 15% surcharge will be imposed on general fees (including filing fees), maintenance fees, and patent search fees. This provision of the Act will take effect 10 days after enactment. *Thus, consider paying any fees due, such as maintenance fees, or filing applications before the effective date of this section.*

**Supplemental Examination** – This provision of the Act provides a post-issuance mechanism to cure acts or omissions during prosecution, which could be construed as inequitable conduct. The Act states that a patent shall not be held unenforceable in litigation on the basis of conduct relating to information considered in a supplemental examination if it is concluded before the litigation is brought. Supplemental examination cannot be used to cure a material fraud committed during prosecution. Patent holders contemplating enforcement of a patent, may want to consider using this procedure well in advance of asserting the patent. This provision of the Act will take effect 1 year after enactment and will apply to patents issued *before, on, or after* the effective date.



**INTELLECTUAL PROPERTY LAW**  
ATLANTA • PHILADELPHIA • SEATTLE

Woodcock Washburn LLP  
Page 3 of 4

**Best Mode Requirement** – The Act prevents the failure to disclose the best mode in a patent to serve as a basis upon which any claim of the patent may be canceled or held invalid or otherwise unenforceable. It should be noted, however, that the Act does not remove the requirement of 35 U.S.C. § 112 to set forth the best mode in the specification of an application for patent. Thus, this change should not be viewed as an invitation to ignore or disregard the best mode requirement. This provision will apply to proceedings commenced on or after the date the Act becomes law.

**Marking and False Marking** – The Act allows for virtual marking. In particular, the Act allows patent holders to provide notice to the public by fixing the word “patent” or “pat” onto an article, or in some instances the packaging, along with an internet address that associates the patented article with the patent number(s) corresponding to the patented article. The provision requires that the website be accessible to the public free of charge. Further, this section states that only the U.S. may sue for the penalty authorized by the false marking statute, thereby limiting the rights of individuals to bring suit. Persons who suffer a competitive injury as a result of false marking may file a civil action to recover damages adequate to compensate for the injury. In addition marking a product covered by an expired patent is not a violation. This section applies to all cases pending on, or commenced on or after, the date of enactment. Thus, it is likely that many pending false marking cases may be dismissed for lack of standing.

**Transitional Program for Covered Business Method Patents** – The Act establishes an 8-year transitional post-grant review proceeding for certain business method patents. Such patents include those that claim a method or corresponding apparatus for performing data processing operations utilized in the practice, administration, or management of a financial product or service, but does not include patents for technological inventions. Unlike the general post-grant review procedure discussed above, which must be requested within nine months of the patent grant, this procedure may be requested any time; however, to make use of this procedure a petitioner must have been sued for, or charged with, infringement of the patent in question. It should be noted that this is a transitional program and, unless extended, will be repealed 8 years after PTO regulations establishing the program take effect. This provision of the Act will take effect 1 year after enactment and will apply to patents issued *before, on, or after* the effective date. The section provides a procedure by which a defendant can request the district court to stay litigation to seek review by the USPTO. The stay provision also allows immediate interlocutory appeal from the district court’s decision.

**Jurisdictional and Procedural Matters** – This section amends the federal judicial code to deny to state courts jurisdiction over legal actions relating to patents, plant variety protection, or copyrights, and grants exclusive jurisdiction to the CAFC for appeals relating to patents or plant variety protection.

Additionally, this section limits joinder of accused infringers in patent cases. Accused infringers may be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial only if any right to relief is asserted against the parties jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences relating to the making, using, importing into the United States, offering for sale, or selling of the same accused product or process, and questions of fact common to all defendants or counterclaim defendants will arise in the action. Simply alleging that multiple accused infringers each have infringed the patent(s) is insufficient for joinder. This limitation on joinder could significantly alter the number of cases brought by non-practicing entities. However, given that this provision applies to any civil action commenced on or after the date the Act becomes law, the impact on existing cases will be minimal. It is likely that filings of such cases will increase prior to the Act becoming law.



**INTELLECTUAL PROPERTY LAW**  
ATLANTA • PHILADELPHIA • SEATTLE

Woodcock Washburn LLP  
Page 4 of 4

**The following take effect upon enactment.**

- USPTO authorized to set fees to recover operating costs
- Tax strategies deemed to be within the prior art (effective against pending and future patent applications)
- Virtual marking allowed; false marking litigation curtailed (applies to pending and future cases)
- Failure to disclose best mode no longer a basis for invalidity (applies to pending and future cases)
- Defense to infringement based on prior commercial use expanded beyond business methods
- Prohibition on joinder of unrelated accused infringers
- 75% fee reduction for “micro entities”
- Request for inter partes reexamination must show a reasonable likelihood the requester will prevail with respect to at least one claim
- Ex parte reexamination rulings no longer reviewable by a district court
- Revised calculation of 60 day period for application of patent term extension

**About Woodcock Washburn LLP**

Woodcock Washburn LLP, with offices in Atlanta, Philadelphia, and Seattle, has specialized in intellectual property law since 1946. Rated as one of the top IP law firms in the United States by *IP Law & Business*, the firm has also been named the top intellectual property firm in Pennsylvania by *Chambers USA* for nine consecutive years. The firm’s lawyers and scientific advisors provide national and international clients a full range of services that includes litigation, patent procurement, IP strategies, trademark and copyright prosecution, licensing advice, and standards and open source software counseling across a wide range of industries and technologies. For more information, go to [www.woodcock.com](http://www.woodcock.com)

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