

Patent reform act at a glance

America Invents Act will change how patents are issued and reviewed, potentially changing how tech companies currently do business



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Intellectual Property

Recently, the U.S. Senate voted 89-9 to approve the America Invents Act of 2011. President Obama signed the act into law Sept. 16.

The act was heralded by Sen. Patrick Leahy as the most significant revision to U.S. patent laws since enactment of the Patent Act in 1952. Others have said it is the most significant change since the 1836 act that established our system of patent examination.

Sponsors claim the act will create millions of new jobs. However, the stated purpose of the act is to improve “patent quality” and reduce the backlog of pending patent applications. Statistics published in the U.S. Patent and Trademark Office’s 2010 Annual Performance and

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Accountability Report demonstrate that although the PTO is modestly profitable, it has been unable to significantly reduce the number of pending applications. At the end of 2010, 1,163,751 patent applications were pending. In 2009, there were 1,207,794 pending applications. Just 10 years earlier, in 2000, 485,129 applications were pending.

The PTO statistics also demonstrate that large numbers of applications are abandoned because further pursuit of a patent is simply not worth the cost or because time has allowed technology to make the claimed invention worthless. A large number of patents are rejected and a small proportion of patents are allowed, suggesting that many applications are not “high quality” and will have little economic value even if allowed. The statistics support the belief that some legislative action was necessary.

The act contains provisions that:

- Change from a first-to-invent patent system to a first-to-file system.
- Create new pre-grant, post-grant review and *inter partes* procedures for third-party patent challenges in the PTO.
- Create a new supplemental examination process to permit patent owners to seek additional review by the PTO, correct “mistakes,” and avoid some assertions of “inequitable conduct.”
- Eliminate defenses in patent litigation based on the failure of a patent to disclose the “best mode.”
- Limit standing in false patent marking cases to persons who have suffered “competitive injury.”
- Authorize the PTO to prioritize examination of patents important to the

national economy or competitiveness.

- Alter the way in which excess funds generated by fees charged during PTO operations are kept and appropriated, likely leaving more of those funds for use by the PTO.

While the act contains other significant reforms, the “bulleted” changes are likely the most significant.

FIRST-TO-FILE VS. FIRST-TO-INVENT

Since the first U.S. patent laws, our relatively unique laws focused on the date an invention was conceived and reduced to practice, rather than the date on which a patent application was filed, to determine who was entitled to a patent. While the number of disputes about priority has not been great, the system has led to uncertainties and is at variance with the laws of other nations. Other patent-granting authorities have awarded patents to the first applicant, regardless of when a claimed invention was first conceived or reduced to practice.

The most significant change effected by the act is the move to a first-to-file system. By amending sections that deal with novelty and nonobviousness, the act will harmonize the U.S. and global patent systems and eliminate other differences in the effect of conduct or publication of data relating to a claimed invention prior to the filing of a patent application.

Until now, American law has included a one-year “grace period,” during which an inventor has been allowed to make some disclosures or begin commercializing, prior to filing an application, without forfeiting patent rights. The act will

significantly limit this “grace period.” When these provisions become effective, any public use or printed publication of a claimed invention, other than by the inventor or one who derived knowledge from him, anywhere in the world at any time before the effective application filing date, will preclude issuance of a patent.

The act replaces existing “interference” procedures, which deal with conflicting inventorship claims, with new “derivation proceedings,” based upon particularized assertions that an “inventor named in an earlier application derived the claimed invention from an inventor named in the petitioner’s application.” Derivation proceedings must be filed within one year after an application is first published. They will be tried before the new patent trial and appeal board, subject to appeal to the Federal Circuit U.S. Court of Appeals.

Most amendments effected by the act, especially the first-to-file provisions, will take effect in one year and will apply to patents issued or applications filed on or after that date. The new first-to-file provisions will generally apply to applications made 18 months after enactment and patents issued thereon. The amendments that create new post-grant review and *inter partes* procedures, described below, and several other provisions, also take effect in a year and will apply “to any patent issued before, on, or after that effective date.” Patents currently being prosecuted will likely not be greatly affected by many of these provisions. However, delay in effect of many provisions may lead to a flood of new applications before the one-year or 18-month effective dates, as some have predicted.

PRE-GRANT SUBMISSIONS, POST-GRANT REVIEW AND 'INTER PARTES' PROCEDURES

The act includes provisions that enable a third party to submit for consideration, prior to patent allowance, “any patent, published patent application, or other publication of potential relevance to the examination of [a pending] application.” This new provision may improve “patent quality” by potentially eliminat-

ing claims that are “obvious” over prior art, in light of materials submitted by a third party that were not previously considered by a patent examiner.

The act also creates new post-grant review procedures, designed to facilitate review of issued patents without federal court litigation. These new processes replace infrequently used existing procedures. New post-grant review may be sought by any person, other than the patent owner, within nine months after a patent’s issuance. Such a person may request that claims be canceled on any ground of patent invalidity. The PTO director may authorize institution of post-grant review if he “determines that the information presented in the petition ... [if] not rebutted, would demonstrate that it is more likely than not that at least one of the claims challenged in the petition is unpatentable.” Post-grant review may also be authorized if a petition “raises a novel or unsettled legal question that is important to other patents or patent applications.”

A request for *inter partes* review may be requested after the nine-month period for a request for post-grant review has expired or after the termination of pending post-grant review. The grounds for *inter partes* review are limited to challenges to novelty and nonobviousness and only “on the basis of prior art consisting of patents or printed publications.” Other grounds for post-grant review are not available in *inter partes* proceedings. The director may authorize an *inter partes* review only if he determines that “there is a reasonable likelihood that the petitioner would prevail with respect to at least one of the claims challenged in the petition.” This standard is higher than the threshold for post-grant review and may render use of *inter partes* procedures less attractive than court adjudication, despite cost and other considerations.

These new procedures may improve “patent quality” by eliminating invalid claims at an earlier stage through less costly and speedier alternatives to civil litigation. Neither type may be commenced if, prior to a request for review, a civil action has been filed by the petitioner, eliminating the possibility of in-

consistent results.

The results of post-grant review or *inter partes* proceedings have collateral estoppel effect with respect to any ground that a petitioner raised or reasonably could have raised. The parties have rights to appeal an adverse decision to the new PTAB and the Federal Circuit.

If the procedures become often used, the burden of the PTO may well increase, perhaps impairing its ability to speedily reduce its current backlog. Because the new provisions allow appeals to the Federal Circuit, the burden on that court may also be increased.

SUPPLEMENTAL PROCEEDINGS

The act does not directly address “inequitable conduct,” that is, a breach of the duty of candor and good faith owed by an applicant in prosecuting claims for a patent based on an affirmative misrepresentation of a material fact or failure to disclose material information with the specific intent to deceive the PTO. The act creates new supplemental examination processes, which permit patent owners to request the PTO to consider, reconsider or correct relevant information and thus potentially avoid allegations of inequitable conduct.

A request for supplemental examination must be reviewed by the PTO and initially completed within three months after a request is made. If a substantial question of patentability is raised, the patent will be re-examined largely in accordance with existing procedures.

After conclusion of supplemental examination, a patent “shall not be held unenforceable on the basis of conduct relating to information that had not been considered, was inadequately considered, or was incorrect in a prior examination of the patent,” if the information was considered in the supplemental proceedings. An exception is provided in cases involving generic pharmaceutical products, under some circumstances.

Nothing in the act allows a third party to participate in supplemental examinations once commenced. However, it is likely an affected potential accused infringer, who becomes aware that

supplemental examination has been requested, may attempt to offer evidence or argument to the PTO during the examination, whether or not statutorily authorized. Similarly, although the act does not explicitly recognize allegations of inequitable conduct as a basis for institution of post-grant or *inter partes* review by a third party, such allegations may well be included in a request for such review.

The new supplemental examination procedures may reduce the frequency of litigation over inequitable conduct. However, a reduction will only occur if, at the same time, the new process is

used frequently. Supplemental examination may improve "patent quality" by eliminating claims or patents procured by inequitable conduct, or "curing" such past conduct by re-examination of issued patents in light of additional, potentially invalidating information. At the same time, these procedures may add to the PTO's workload and increase the existing backlog.

CONCLUSION

The ultimate effect of the act is not entirely predictable. Passage of the act will undoubtedly induce some additional litigation, including attacks on the

constitutionality of the act's first-to-file provisions. Whether it will result in improved "patent quality," or any reduction in the PTO's growing backlog, or create any new jobs, remains to be seen.

Changes wrought by the act will undoubtedly affect business conduct, patent prosecution and patent litigation for years to come. Businesses that rely on patents to protect their intellectual capital, and businesses that are attacked as alleged infringers, will all be affected. Passage of the act is itself a call to action for all businesses, which will need to prepare for the new environment in which the act will soon require them to operate.



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