

The America Invents Act of 2011

By D. Christopher Ohly

It appears that the long debate over US patent reform may be nearing its end. By a vote of 95-5, the US Senate recently passed patent reform legislation now titled The America Invents Act. The Act contains provisions that:

- Change from the existing first-to-invent patent system to a first-to-file regime.
- Create new post-grant review procedures for third-party patent challenges in the Patent and Trademark Office (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.
- Allow the PTO to set its own examination fees and retain any excesses for use in funding PTO operations.

The House of Representatives began consideration of similar legislation (H.R. 243) in hearings before the Subcommittee on Intellectual Property, Competition and the Internet of the House

Judiciary Committee. On February 11, 2011, that House committee held a hearing on “Crossing the Finish Line on Patent Reform—What Can and Should be Done.”¹ A further hearing was held by the House Judiciary Committee on March 30, 2011, on another version, H.R. 1249, which is substantially similar to the version passed by the Senate.² The House Judiciary Committee met on April 14, 2011, and considered and adopted a number of amendments to the Senate version of the Act. Those changes are summarized below. The House bill will also be considered by the Budget Committee. The Act will likely reach the floor of the House for action soon thereafter.

The last substantial revision the patent laws occurred nearly 60 years ago, in 1952. Versions of the Patent Reform Act were also introduced in 2004 and in each successive session of Congress. In September 2007, the House of Representatives passed a more sweeping version of the 2011 legislation passed by the Senate. Although the Senate has considered legislation for years, it was not until the Senate vote on March 8 that any version of the patent reform act was passed by the full body. The Senate vote makes passage of some form of the patent reform act both imminent and probable.

Following the Senate vote, the President issued a brief statement commending the Senate for its bipartisan action,³ stating that this “long-overdue reform is vital to our ongoing efforts to modernize America’s patent laws and reduce the backlog of 700,000 patent applications” and “help grow our economy and create good jobs.” It is probable that, if the House also passes the legislation, the President will sign the patent reform act into law.

The America Invents Act, if enacted as proposed in the Senate (S.23), will make changes to current patent statutes that affect patent prosecution, proceedings in the Patent and Trademark Office (PTO) both prior to and after issuance of a patent and, to a lesser extent, patent litigation in the federal courts. These changes will take effect one year after the date of final enactment and will apply to patents issued on or after that effective date.

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Although earlier versions of the Act would have made significant revisions affecting litigation, those proposed revisions engendered great controversy. Some industry interests favored the proposed changes as a means of curtailing attacks by patent trolls or of avoiding competition-limiting patents. Others viewed earlier legislative proposals as diminishing patent value. In the bill passed by the Senate, all of these controversial, litigation-affecting provisions were eliminated.

Patent Prosecution

The most significant amendment of the Patent Act that would be effected by the America Invents Act would allow a patent to the first inventor to file an application for a patent, rather than the first to invent. By amending sections of the Patent Act that deal with novelty and non-obviousness, the America Invents Act would harmonize the US patent system with systems in other countries that have long granted patents to the first to file and would eliminate other differences between conduct or publication in the United States and elsewhere in the world. *Any* public use or printed publication of a claimed invention, other than by the inventor or one who derived knowledge from the inventor,⁴ *anywhere* in the world at *any time* “before the effective filing date of the claimed invention” will preclude issuance of a patent. Inventors will no longer be able to “swear behind” prior art or to claim priority over another inventor in an interference proceeding on the basis that they were first to invent, even if not first to file.

The House Judiciary Committee considered amendments to the proposed legislation that would have exempted public use, sale, or other public disclosure by the inventor within one year of the application’s filing date from the absolute bar to patenting that will be imposed under the America Invents Act, amendments that would effectively reinvigorate the one year grace period that now exists under the Patent Act. Those amendments were rejected by the House Judiciary Committee. The Manager’s Amendment to the House version of the Act, H.R. 1249, as amended, was ultimately adopted by the Committee.⁵

The America Invents Act would replace the “interference” procedures in current law, which deal with inventorship issues, with new “derivation proceedings.” Such “derivation proceedings” may

be instituted based upon a particularized assertion 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 first publication of a patent claim. They are to be tried before the Patent Trial and Appeals Board, subject to appeal to the Court of Appeals for the Federal Circuit.

The Senate concluded that the first-to-file provision would not wreak such havoc and that, on balance, the certainties created by the provision outweighed any of the potential detriments.

Some have criticized the first-to-file provision as antagonistic to interests of “small” inventors and research universities, because it may preclude patenting of inventions if disclosures are unknowingly made by business people affiliated with but other than the inventor before a patent application is filed or even by the inventor more than one year before a patent application is filed. Others have asserted that the first-to-file provision will produce a rush to the PTO and produce greater volumes of low-quality patents. Despite these continuing criticisms, the Senate concluded that the first-to-file provision would not wreak such havoc and that, on balance, the certainties created by the provision outweighed any of the potential detriments.

The America Invents Act would amend the Patent Act to enable any third party to “submit for consideration and inclusion in the record of a patent application, any patent, published patent application, or other publication of potential relevance to the examination of the application,” prior to the issuance of a patent or within six months after first publication of a patent application (or, if later, the date of the first rejection of an application).⁶ This new provision is apparently designed to strengthen patents by eliminating those that are “obvious” over prior art in light of relevant materials submitted by a third party while a patent is under examination.

The America Invents Act would also create new post-grant review procedures for challenging patents. These procedures are apparently designed

to strengthen patents by eliminating those that are “obvious” at an earlier stage and to provide a less costly and speedier alternative to civil litigation when the primary issue is patent invalidity on grounds of “obviousness” over prior art. At the same time, since the new provisions will allow appeals from decisions in “post-grant review proceedings” to the Federal Circuit, the burden on that court may well be increased.⁷

The America Invents Act would make changes to relatively rare reexamination procedures, streamlining *inter partes* procedures, which will be similar to the new post-grant review process. Unlike post-grant review, which may be sought within nine months after a patent’s issuance and which can rely on any ground of patent invalidity, the grounds for *inter partes* proceedings will be limited to challenges “on the basis of prior art consisting of patents or printed publications” and will be available only after that nine month period has expired and with certain other limitations.

The Senate and initial House version of the Act would permit the Director of the USPTO to authorize *inter partes* review if he finds that the information presented in a petition and any response “shows that a substantial new question of patentability exists.” The House Manager’s Amendment to the House version of the Act, as adopted by the Judiciary Committee, would permit the Director to authorize such actions only if the information presented in a petition and any response “shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.” The effect of the House amendment would seem to make the institution of *inter partes* proceedings more difficult, raising the threshold standard from a showing that that a “substantial *new question* of patentability exists,” to a more difficult showing of a “reasonable likelihood that the petitioner would prevail.” The change would seemingly make the use of *inter partes* proceedings far less appealing to accused infringers who are already involved in patent litigation.

Interestingly, the Manager’s Amendment to the House version of the Act made no comparable changes to the Act’s new provisions for “supplemental examination.” The Act, as adopted by the Senate and as now before the full House of Representatives, would permit the institution of

such supplemental examination upon a finding that a request raises a “substantial new question of patentability.”

If a civil action for patent infringement is filed within three months of the grant of a patent, the America Invents Act prohibits the court in which the action is pending from staying consideration of any motion by the patentee for a preliminary injunction based upon a petition for post-grant review or the institution of post-grant proceedings. The Act prohibits the institution of *inter partes* proceedings if the petitioner or real party in interest has filed a civil action challenging the validity of a claim of the patent. It also prohibits such *inter partes* proceedings if “the petition requesting the proceeding is filed more than 6 months [12 months in the House version] after the date on which the petitioner . . . is served with a complaint alleging infringement of the patent.”⁸ However, the America Invents Act does not prohibit a court from staying a civil action based on the timely institution of *inter partes* proceedings.

The America Invents Act does not directly address “inequitable conduct,” a defense often asserted in patent litigation.

While reexamination proceedings have been requested by defendants in some patent infringement cases followed by a request for stay of civil litigation, the America Invents Act may well make such defensive strategies less useful. If post-grant proceedings are initiated, review by the PTO will be permissible based on any ground of invalidity, but related civil proceedings will not be stayed, at least not on the basis that post-grant review has been commenced. Even if stays of civil litigation are not prohibited after institution of *inter partes* proceedings, the number of instances in which such stays of civil litigation may be sought will be few. As noted earlier, *inter partes* proceedings may not be filed until at least nine months after issuance of a patent and less than six months after institution of patent litigation and are limited to consideration of “prior art consisting of patents or printed publications.” Timing and scope of review may make reliance on such proceedings less likely to warrant a request for a stay of civil litigation, even in light

of potential differences in the standard of proof applicable in civil litigation.

Under the America Invents Act, invocation of either post-grant or inter partes proceedings will prevent (estop) the party initiating review from asserting certain arguments in later-conducted civil litigation.⁹

Patent Litigation

The America Invents Act does not directly address “inequitable conduct,” a defense often asserted in patent litigation. It provides for a new supplemental examination process, which will permit patent owners to seek additional review by the PTO to consider, reconsider, or correct information believed to be relevant to a patent.¹⁰ If a substantial question of patentability is raised by a request for supplemental examination, the patent will be reexamined in accordance with existing procedures with certain modifications. After conclusion of such supplemental examination, the America Invents Act provides that 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 Hatch Waxman cases to allegations pleaded with particularity in a “Paragraph IV” notice provided by a generic pharmaceutical manufacturer to a patentee in advance of patent litigation. As a general matter, however, the creation of a supplemental examination process may provide a means by which a patentee may be able to avoid at least some inequitable conduct allegations in patent litigation.

In the House Judiciary Committee, one member offered an amendment to the Manager’s Amendment that would prohibit the institution of supplemental examination and would require termination of supplemental examination already commenced, “regarding an application or patent in connection with which fraud on the Patent Office was practiced or attempted.” The amendment, adopted by the House Committee by a vote of 21-9, would also require the PTO Director to refer to the Attorney General any such matter upon determination by the Director that “fraud on the Patent Office was practiced or attempted.” If

adopted by the House and eventually by the Senate, this amendment would significantly circumscribe the utility of supplemental examination proceedings for patentees and would, at least to some meaningful degree, potentially shift to the PTO, where a preponderance of evidence standard may well apply, determination of issues that might otherwise be raised in a defense of inequitable conduct.

The America Invents Act will significantly reduce the number of false marking cases that may be commenced by limiting standing in such cases to persons who have suffered “competitive injury” as a result of a false patent marking.

The “best mode” requirement in patent applications is retained by the America Invents Act, but the Act will eliminate, as a basis on which any claim of a patent may be canceled or held invalid or otherwise unenforceable in litigation, the failure of a patent to disclose the “best mode” of practicing a patent. In effect, this provision will eliminate the direct defense, previously asserted in some patent litigation, that a patent failed to comply with the statutory “best mode” requirement. Whether the “best mode” defense may reappear in another form will be the subject of future litigation.

The America Invents Act will significantly reduce the number of false marking cases that may be commenced by limiting standing in such cases to persons who have suffered “competitive injury” as a result of a false patent marking. The Manager’s Amendment to the House version of the America Invents Act would also create a three-year grace period after expiration of a patent, eliminating liability for any conduct otherwise cognizable under 35 U.S.C. § 292, the false marking statute, within that period. It would also eliminate liability for conduct *after* the three year grace period if the word “expired” is placed before the word “patent” or a similar word, “either on the article *or* through a posting on the Internet . . .” These differences, like others, will have to be reconciled by the House and Senate before final enactment of the America Invents Act.

The House Manager’s Amendment struck language in the Senate and initial House version of

the America Invents Act that would have expanded the definitions of “commercially used” and “commercial use” in 35 U.S.C. § 273(a) to include “use of the subject matter of a patent in *or outside*” the United States. The Manager’s Amendment eliminated the last words, “or outside,” thus limiting “commercial use” to uses *in* the United States. The amendment nevertheless expands the definition of “commercial use” from “use of a method” in the United States to “use of the subject matter of a patent” in the United States. The overall effect of these amendments, in combination with others, would be to allow a defense in an action for patent infringement to anyone who had reduced the invention claimed in *any* patent (and not merely method patents) to practice and commercially used the subject matter of the patent in the United States more than one year prior to the effective *filing* date of the claimed invention that is the subject of the patent. Commercial use of the same subject matter *outside* the United States would create a cognizable defense, under the Senate version of the new Act, but not under the House version, as amended by the Manager’s Amendment. This difference, along with other differences between the Senate and House versions, will have to be reconciled before final enactment.¹¹

Other Provisions

The America Invents Act contains a number of other important provisions. Perhaps the most important change in the law will be budgetary. The America Invents Act will allow the PTO to set its own patent and trademark examination fees, without prior congressional approval, in amounts that, in the aggregate, recover the estimated costs of PTO operations. There are some differences, once again, between the House and Senate versions of the America Invents Act, but none seemingly insuperable. The Act will also end the practice of diverting excess amounts collected by the PTO to general federal budgetary needs by establishing a “USPTO Revolving Fund,” which will make such excess funds in any one year available for use by the PTO in the next year. The effect of this change, it is hoped, will be to reduce the burgeoning backlog of pending patent applications.

The America Invents Act would also authorize the PTO Director to “provide for prioritization of examination of applications for products, processes,

or technologies that are important to the national economy or national competitiveness without recovering the aggregate extra cost of providing such prioritization.” The language reveals the purpose: to speed examination of patents that will produce significant competitive or other economic advantage to the nation.

If finally enacted into law, the America Invents Act will also streamline the process by which a corporate assignee of a patent may file a patent application; eliminate most tax strategy patents; address certain business method patents; allow “micro entities” to pay lower patent examination fees; create a Patent Ombudsman in the PTO; change certain residency requirements for judges of the Court of Appeals for the Federal Circuit; allow the creation of three PTO satellite offices, including the one already announced for Detroit, Michigan; make certain clarifications to jurisdictional provisions in the Federal Code; and effect certain other technical changes.

Conclusion

Although there are some differences between the already passed Senate version of the America Invents Act and the version just passed by the House Judiciary Committee, it would seem that those differences are reconcilable. None raise the kinds of strong policy debates or lobbying ire that has characterized consideration of previous versions of the Act, in prior sessions of Congress. It would seem that, after all these years, there is substantial agreement and that some version of the America Invents Act will be passed this year.

Patents and other intellectual property have become an increasingly important component of value in US business. According to one recent study, in 1984 the book value (physical assets) of the top 150 public companies equaled about 75 percent of their stock market value; by 2005, book value only accounted for 36 percent of the value of the top 150 companies. Intellectual property accounts for 64 percent of the value of the top 150 US public companies.¹²

Prudent business judgment requires careful and continued attention to these developments, since every business in today’s world will ultimately be affected by them. Indeed, if the statistics about share value are correct, then a significant part of economic value of modern enterprise may well

be affected in some material way by passage of the America Invents Act. Businesses that rely on patents to protect their intellectual capital, as well as those businesses that are attacked as alleged infringers, whether by patent trolls or by owners of patents that practice the art that they disclose, will all be affected by the legislation. It is time to get prepared for the changes that will occur, and be ready for shape of the things to come.

Notes

1. See http://judiciary.house.gov/hearings/hear_02112011.html.
2. See <http://www.gpo.gov/fdsys/pkg/BILLS-112hr1249ih/pdf/BILLS-112hr1249ih.pdf> and http://judiciary.house.gov/hearings/hear_03302011_02.html.
3. See <http://www.whitehouse.gov/the-press-office/2011/03/08/statement-president-senate-passage-america-invents-act>.
4. The America Invents Act provides a grace period of one year during which disclosures may be made by the inventor, or by one whose knowledge derives from a prior public disclosure by the inventor, without losing priority. Many foreign countries that have first-to-file systems do not have such grace periods.
5. See http://judiciary.house.gov/hearings/mark_04142011.html. Procedurally, the Committee's Manager's Amendment, which would have created such an exemption, was itself amended by the Committee's adoption of an amendment to the Manager's Amendment offered by Representative Zoe Lofgren (Number 13) that was passed by voice vote.
6. See America Invents Act, § 7, at 71, <http://www.gpo.gov/fdsys/pkg/BILLS-112s23es/pdf/BILLS-112s23es.pdf>.
7. While the Senate and initial House versions of the Act would set standards for court determination whether to stay pending patent litigation when post-grant review proceedings are instituted, in a new section 35 U.S.C. § 330, the House Manager's Amendment would eliminate those standards. The Manager's Amendment would also eliminate similar standards established in the Senate and initial House versions of the Act, in a new section 35 U.S.C. § 320, for consideration of a stay when *inter partes* proceedings are instituted. Similar standards in the Senate and initial House versions of the Act, applicable in transitional cases involving post-grant review proceedings for covered business method patents were, however, left undisturbed by the Manager's Amendment. See H.R. 1249, § 18(c).
8. The difference between the Senate and House (Manager's Amendment) versions will have to be reconciled. The Manager's Amendment would also effect other changes in the proposed *inter partes* procedures.
9. An amendment to the House Manager's Amendment to H.R. 1249 would also add language to 35 U.S.C. § 156, relating to patent term extensions, to clarify when such an extension may commence after a product "receives permission."
10. See America Invents Act, § 10, at 81.
11. Other parts of the adopted Manager's Amendment would change aspects of 35 U.S.C. § 273(b)(3)(B), which generally precludes the defense to infringement created by § 273, if the knowledge of the accused infringer was "derived" from the patentee or persons in privity with the patentee. Another part of the Manager's Amendment would strike certain venue and attorney's fees provisions applicable in cases involving covered business method patents. Yet another portion of the Manager's Amendment would add a new 35 U.S.C. § 298 to provide some limits to joinder of certain accused joint infringers in a patent infringement action.
12. Robert J. Shapiro and Nam D. Pham, *Economic Effects of Intellectual Property Intensive Manufacturing in the United States* (July 2007).