



## ARE Patent Law Alert: Overview of the Leahy-Smith America Invents Act on Patents

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On Thursday, September 8, 2011, the U.S. Senate passed the Leahy-Smith America Invents Act, H.R. 1249 ("the Act"), by an 89-9 vote, thus adopting the form of the bill previously approved by the House of Representatives. It is expected that the President will sign the bill into law shortly.

The Act amends the Patent Law (Title 35, U.S.C.) for the stated purpose of providing for patent reform. Some of the more significant changes to the Patent Law include changing the U.S. Patent Law system from a "first-to-invent" system to "first-to-file" system, creating new post-grant proceedings in the PTO under which the validity of patents may be challenged, providing for broader prior user rights, modifying the law as to false marking claims, modifying the law of joinder in multi-defendant patent infringement cases, as well as numerous other provisions relating to substantive patent law, patent litigation procedure, and practice before the PTO.

Below is a summary of the changes to the Patent Law under the Act:

- **Changes from "First-to-Invent" to "First-to-File" System (Sec. 3)**

One of the most sweeping changes of the Act is to change the U.S. Patent Law from a "**first-to-invent**" priority system to a "**first-to-file**" priority system. The purpose of this change is to "promote harmonization of the United States patent systems with those commonly used in nearly all other countries throughout the world" (See Sec. 3(p)).

Under current U.S. Patent Law, as to many categories of prior art, the determination whether a reference is prior art is based on whether the reference pre-dates the date of the patent applicant's "invention." (See, e.g., 35 U.S.C. §§ 102(a) and 102(e)). Under the Act, the determination of whether a particular reference is prior art will instead be based on whether the reference pre-dates the "**effective filing date of the claimed invention**." (See new 35 U.S.C. § 102(a)(1) & (2)). Specifically, under the Act, a "claimed invention" is not novel if "patented, described in a printed publication, in public use, on sale, or otherwise available to the public" prior to the effective filing date of the claimed invention. (See new 35 U.S.C. § 102(a)(1)). Of note, the "on sale" and "in public use" activities are no longer limited to the U.S., as under the current law. In addition, a claimed invention is not novel if it is described in a patent or published patent application that



names another inventor and was filed before the effective filing date of the claimed invention. (See new 35 U.S.C. § 102(a)(2)).

The Act does retain a limited one-year “grace period” under the “exceptions” provision for disclosures made one year or less before the effective filing date of the claimed invention “by the inventor or joint inventor or by another who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor.” (See new 35 U.S.C. § 102(b)(1)). In addition, public disclosures in patents and patent applications “by the inventor or joint inventor or another who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor” are also not prior art. (See new 35 U.S.C. § 102(b)(2)).

In addition, the Act has replaced the old “interference” practice, which under the current law may be used to determine the priority of invention between two applicants for the same invention based on which applicant invented the subject matter first, with a new “Derivation Proceeding.” An applicant may succeed in the derivation proceeding against the owner of another patent or patent application that claims the same invention and has an earlier effective filing date, if he can establish that the invention claimed in the other patent or patent application was derived from the inventor of the later-filed patent application. (See new 35 U.S.C. §135). A petition for a derivation proceeding may be filed “only within the 1-year period beginning on the date of the first publication of a claim to an invention that is the same or substantially the same as the earlier application’s claim to the invention.”

Sec. 3 of the Act will become effective 18-months after enactment and shall only apply to applications with filing dates on or after that time or applications which do not claim priority to applications filed before that time. (See Sec. 3 (n)).

- **Modifications of Defenses to Patent Infringement Under the Act**
- **Defense to Infringement Based on Prior Commercial Use (Sec. 5)**

The current U.S. Patent Law, 35 U.S.C. § 273, provided for very limited “prior user rights” as a defense to patent infringement. Specifically, the current Section 273 is limited in subject matter - it applies only to methods of doing or conducting business. The Act replaces Section 273 with a new and broader “prior user right” which is not limited to “methods of doing or conducting business.” (Cf. 35 U.S.C. § 273(a)(3)).

Under the Act, a prior user defense may be used as a defense to infringement by a person “acting in good faith, [who] commercially used the subject matter in the United States, either in connection with an internal commercial use or an actual arm’s length sale or other arm’s length commercial transfer of a useful end result of such commercial use” which occurs at least one year before the “effective filing date of the claimed invention” or “the date on which the claimed invention was disclosed to the public in a manner that qualified for the exception from prior art” under new 35 U.S.C. 102(b) (discussed above). See new 35 U.S.C. § 273(a)(1) & (2).



The prior user right is subject to several significant restrictions:

- o It remains personal to the actual entity that performed or directed the performance of the commercial use (see new 35 U.S.C. § 273(e)(1)(A));
- o It may not be separately licensed, assigned or transferred (see new 35 U.S.C. § 273(e)(1)(B));
- o It is limited to the sites of the prior use (see new 35 U.S.C. § 273(e)(1)(C));
- o It does not apply to any prior use that derived from the patentee or persons in privity with the patentee (see new 35 U.S.C. § 273(e)(2));
- o It only applies to particular claims that were in prior use, and does not apply to other claims (see new 35 U.S.C. § 273(e)(3));
- o It does not apply when the prior use has been abandoned (see new 35 U.S.C. § 273(e)(4));
- o It does not apply to inventions originating from Universities (unless activities to reduce the invention to practice could not have been undertaken using Federal Government funds) (see new 35 U.S.C. § 273(e)(5)).

In an effort to discourage the unreasonable assertion of the prior user defense, the Act retains the provision that if the defense is pled “by a person who is found to infringe the patent and who subsequently fails to demonstrate a reasonable basis for asserting the defense, the court *shall* find the case exceptional for purposes of awarding attorney fees under section 285.” (See new 35 U.S.C. § 273(f) (emphasis added)).

The Act also provides that “[a] patent shall not be deemed to be invalid under section 102 or 103 solely because a defense is raised or established under this section.” (See 35 U.S.C. § 273 (g)). Thus, the defense is only available as a non-infringement defense to the party who can establish their own prior use.

The new prior user right applies to any patent issued on or after the date of enactment of the Act.

- **“Best Mode” (Sec. 15)**

Under the current U.S. Patent Law, a specification for a patent is required to “set forth the best mode contemplated by the inventor of carrying out his invention.” 35 U.S.C. 112, Par.1. While the Act does not eliminate this requirement, Section 15 of the Act eliminates “failure to disclose the best mode” as “a basis upon which any claim of a patent may be canceled or held invalid or otherwise unenforceable.” (See new 35 U.S.C. § 282(3)(A)).

This change takes effect upon enactment of the Act and applies to proceedings commenced on or after that date. (Sec. 15(c)).



- **“Tax Strategies” (Sec. 14)**

Section 14 of the Act modifies the validity analysis for certain kinds of inventions. In particular, “any strategy for reducing, avoiding or deferring tax liability, whether known or unknown at the time of the invention or application for patent, shall be deemed insufficient to differentiate a claimed invention from the prior art.” (Sec. 14(a)). Expressly excluded from this preclusion are:

- “a method, apparatus, technology, computer program product, or system, that is used solely for preparing a tax or information return or other tax filing, including one that records, transmits, transfers, or organizes data related to such filing”; (Sec. 14(c)(1)) and
- “a method, apparatus, technology, computer program product, or system used solely for financial management, to the extent that it is severable from any tax strategy or does not limit the use of any tax strategy by any taxpayer or tax advisor.” (Sec. 14 (c)(2)).

Section 14 provides that “[n]othing in this section shall be construed to imply that other business methods are patentable or that other business method patents are valid.” (Sec. 14 (d)). The Act does not define the term “business method patent.”

Section 14 becomes effective on the date of enactment and applies to any patent application that is pending on or filed after that date, and to any patent that is issued on or after that date. (Sec. 14(e)).

- **Limitation on Issuance of Patents Claiming “a Human Organism” (Sec. 33)**

Section 33 of the Act provides that “no patent may issue on a claim directed to or encompassing a human organism.” (Sec. 33 (a)).

This new prohibition takes effect immediately upon enactment of the Act for any application pending on, or filed on or after the date of enactment. (Sec. 33(b) (1)). This prohibition does not apply to any previously issued patent. (Sec. 33(b)(2)).

- **Advice of Counsel (Sec. 17)**

The Act adds a new paragraph to 35 U.S.C. § 298 to codify that the failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent may not be used to prove that the accused infringer willfully infringed the patent or that the accused infringer intended to induce infringement of the patent.

This provision shall take effect one year after enactment of the Act and shall apply to any patent issued on or after that effective date.

- **Third Party Challenges**

The revised law contains a number of new procedural mechanisms in the PTO for third parties



to challenge the validity of a patent, as well as revisions to the existing methods:

- ***Pre-issuance Submissions by Third Parties:***

Section 8 of the Act amends 35 U.S.C. § 122 to add a procedure by which third parties may submit prior art references, such as a patent, published patent application, or printed publication, to the PTO before issuance of another's patent. Under the Act, the submission must be made in writing before the earlier of (a) a notice of allowance, or (b) the latter of (i) six months after publication; or (ii) the first rejection of the patent application. (See new 35 U.S.C. § 122(1)(A) & (B)). In addition to paying the required fee, the submission must set forth "a concise description of the asserted relevance of each submitted document." (See new 35 U.S.C. 122 (2)).

This new procedure becomes effective one year after enactment of the Act for any patent application filed before, on or after that date. (Sec. 8(b)).

- ***Submissions by Third Parties:***

Section 6(g) of the Act amends the procedure by which third parties may submit prior art to the PTO by now permitting the third party to also submit statements the patent owner filed before a Federal Court or the PTO at any time during which the patent owner "took a position on the scope of any claim of a particular patent." (See new 35 U.S.C. §301(a)(2)). If the third party makes such a submission pursuant to new 35 U.S.C. § 301(a)(2), the third party may also submit other pleadings or evidence from the proceeding in which the patent owner's statement was filed that address the patent owner's statement. (See new 35 U.S.C. § 301(c)). The written statement and additional information submitted pursuant to new 35 U.S.C. § 301(c) can only be used by the PTO for determining the proper meaning of a patent claim during an *Ex Parte* Reexamination, *Inter Partes* Review or during a Post-Grant Review procedure. (See new 35 U.S.C. § 302(d)).

This new procedure becomes effective one year after enactment of the Act for any patent application filed before, on or after that date. (Sec. 6(g)(3)).

- ***Ex Parte Reexamination:***

The existing form of *Ex Parte* reexamination will remain unchanged.

- ***Inter Partes Reexamination:***

Section 6 of the Act phases out the current *Inter Partes* Reexamination procedure, which is to be replaced with a new *Inter Partes* Review procedure discussed below. However, in the interim, upon enactment for any new proceedings filed within one year of enactment of the Act, the standard for *Inter Partes* Reexamination of a patent will be changed from "a substantial new question of patentability" to "a reasonable likelihood that the requestor





would prevail” with respect to at least one challenged claim. (See Sec. 6(c)(3)). The prior standard will continue to apply to any *Inter Partes* Reexaminations filed before enactment. (See Sec. 6(c)(3)(C)).

- ***Inter Partes Review:***

Section 6 of the Act adds a new Chapter 31 of Title 35 of the U.S.C. to govern a new *Inter Partes* Review procedure, which will become effective one year after enactment of the Act. The *Inter Partes* Review is a procedural mechanism for third parties to challenge an issued patent based on prior art consisting of patents or printed publications which render invalid one or more issued claims. (See new 35 U.S.C. § 311 (b)). This procedure will replace the current form of *Inter Partes* Reexamination.

The standard for initiating an *Inter Partes* Review is whether there is “a reasonable likelihood that the petitioner would prevail” with respect to at least one challenged claim. (See new 35 U.S.C. § 314(a)). A third party may file a petition for *Inter Partes* Review at any time after the later of (1) nine months after the grant of the patent or reissuance of the patent, or (2) after the termination of any post-grant review. (See new 35 U.S.C. § 311 (c)).

The *Inter Partes* Review procedure has new features with respect to its relation to civil actions. An *Inter Partes* Review may not be filed more than one year after the date of the initiation of a patent infringement action against the petitioner involving the patent. In addition, if a petitioner had previously filed a civil action challenging the validity of a claim of the patent, that petitioner may not institute an *Inter Partes* Review. Further, if the petitioner files a civil action challenging the validity of a claim of the patent after filing a petition for *Inter Partes* Review, that civil action “shall be” automatically stayed until the patent owner moves the court lift the stay, the patent owner files a civil action counterclaiming for infringement, or the petitioner moves the court to dismiss the civil action. Counter-claims by the petitioner challenging the validity of a claim are not governed by the above rules.

In addition, *Inter Partes* Review proceedings may be terminated upon settlement. So long as the PTO has not yet decided the merits of the proceeding, *Inter Partes* Reviews shall be terminated upon joint request of the petitioner and patent owner.

- ***Post Grant Review:***

Section 6 of the Act adds a new Chapter 32 of Title 35 of the U.S.C. to provide a new Post-Grant Review procedure which may be used as a method for third parties to challenge an issued patent. The Post-Grant Review procedure will become effective one year after enactment of the Act.

Unlike *Ex Parte* Reexamination and *Inter Partes* Review, both of which are limited in scope, a request for post-grant review may be based on “any ground that could be raised under paragraph (2) or (3) of section 282(b) (relating to invalidity of the patent or any claim).” A petition for post-grant review must be filed within nine months after the grant or



reissuance of the patent. The standard for initiating a post grant review is whether the information presented in the petition, if not rebutted, “would demonstrate that it is more likely than not” that at least one challenged claim is invalid. (See new 35 U.S.C. § 324(a)).

The post grant review procedure has the same provisions relating to its interplay with civil actions and termination upon settlement as the *Inter Partes* Review procedure, discussed above. (See new 35 U.S.C. §§ 325 and 327).

- ***Supplemental Examination:***

Section 12 of the Act provides for a supplemental examination procedure under which a patent owner may request that the PTO “consider, reconsider, or correct information believed to be relevant to the patent.” If the PTO concludes that the information presents “a substantial new question of patentability,” the PTO shall order reexamination of the patent. (See new 35 U.S.C. § 257).

This section provides patent owners with a way to clear the record with respect to potential claims of inequitable conduct. Under the Act, with limited exceptions, 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 prior examination of a patent if the information was considered, reconsidered, or corrected during a supplemental examination of the patent.” (See new 35 U.S.C. § 257(c)).

The new supplemental examination procedure will become effective 1 year after enactment with respect to any patent issued before, on or after the effective date. (See Sec. 12(c)).

- ***Transitional Program for Covered Business Method Patents:***

Section 18 of the Act calls for the institution of a transitional post-grant review proceeding for the review of the validity of business method patents within one year of the enactment of the Act.

- **Changes in Jurisdiction, Venue and Joinder for Patent Cases**

- o **New Joinder Provisions (Sec. 19)**

The Act adds a new 35 U.S.C. § 299, which modifies the rules of joinder of parties in patent infringement actions. This provision applies to any civil action commenced on or after enactment of the Act.

Section 299 provides that joinder is appropriate where the right to relief arises out of the same transaction, occurrence or series of transactions or occurrences (see new 35 U.S.C. § 299(a)(1)), or which have questions of fact common to all defendants (see new 35 U.S.C. § 299(a)(2)). However, Section 299 specifies that joinder is **not** appropriate based solely on allegations that each defendant has infringed the same patent or patents in suit. (See



new 35 U.S.C. § 299(b)). Section 299 does allow an accused infringer to waive these limitations. (See new 35 U.S.C. § 299 (c)).

This section will be relevant in determining whether multi-defendant patent cases may be maintained as a single action.

- o **Clarification of Federal Jurisdictional Over Patent and Copyright Claims (Sec. 19)**

Section 19 of the Act modifies the jurisdictional requirements of 28 U.S.C. §1338(a) to expressly state that “[n]o state court shall have jurisdiction over any claim for relief arising under any Act of Congress relating to patents, plant variety protection or copyrights.”

- o **New Venue Requirements (Sec. 9)**

Section 9 of the Act changes the venue for actions involving the PTO (e.g., suspension or misconduct hearings, civil actions against the PTO) and service upon non-resident patentees from the District of Columbia to the Eastern District of Virginia. (See Sec. 9(a)). This change takes place upon enactment of the Act with respect to any action commenced on or after that date. (See Sec. 9(b)).

- **Patent Marking (Sec. 16)**

The Act modifies Section 287(a) to expand the ways in which a patent may be marked. Under the Act, a patent may be marked by making reference to a public website address that associates the patented article with the number of the patent, *i.e.*, “virtual marking.” (See new 35 U.S.C. § 287(a) & Sec. 16). This new method of marking applies to any case that is pending on or commenced on or after the date of enactment of the Act. (Sec. 16(a)(2)).

To address the recent spate of false patent marking litigations, the Act also limits the persons who have standing to bring a suit for false patent marking to persons who have “suffered a competitive injury as a result of” such false marking (see new 35 U.S.C. § 292(b)). In addition, damages for a suit by a competitor are set to be “adequate to compensate for the injury” (see new 35 U.S.C. § 292(b)). This change should curtail the wave of false patent marking suits that have been brought over the past few years.

The Act also provides that marking a product with an expired patent is not a violation of Section 292. (See new 35 U.S.C. § 292(c)).

The modifications to 35 U.S.C. § 292 apply to “all cases, without exception, that are pending on or commenced on or after, the date of the enactment of the Act.” (Sec. 16(b)(4)).

- **Expedited Proceedings**

- **Priority of Examination for Important Technologies (Sec. 25)**





The Act modifies 35 U.S.C. § 2(b)(2) to give the PTO authority to prioritize the examination of applications for products, processes or technologies that are important to the national economy or national competitiveness. (See new 35 U.S.C. § 2(b)(2)(G)). This provision does not become effective until a year after enactment. (Sec. 35).

- **Assisting Small Businesses and Independent Inventors (Secs. 28 & 32)**

The Act directs the Director to set up and maintain a Patent Ombudsman Program to provide assistance to small business concerns and independent inventors. (Sec. 28).

In addition, effective as of the enactment of the Act, the Director shall work with nationwide intellectual property law associations to establish pro bono programs to assist “financially under-resourced independent inventors and small businesses.” (Sec. 32).

- **New Oath and Declaration Procedures (Sec. 4)**

The Act also modifies the procedures and conditions for providing “oaths” and “declarations” for patent applications under 35 U.S.C. §§ 115 and 118. Under current U.S. Patent Law, each inventor is required to execute an oath or declaration (see 35 U.S.C. § 115), unless the inventor refuses to do so, or is otherwise unavailable, in which case a person to whom the inventor has assigned or agreed to assign the invention can execute an appropriate declaration (see 35 U.S.C. 118).

Under new 35 U.S.C. §§ 115 and 118, the procedures associated with the “declarations” have been expanded to provide for more detailed declarations that may submitted by an assignee, rather than an inventor.

Sec. 4 of the Act will become effective one year after the date of enactment and shall apply to applications filed on or after that date. (See Sec. 4(c)).

- **PTO Funding and Fees**

One of the commonly understood justifications for the Act when it was first presented to the Senate earlier this year was to obtain better funding for the PTO. The House version of the bill watered down the funding provisions, including removing the provision which had prevented fee diversion. Nonetheless, several significant funding provisions remain in the Act. In addition, several fee-related provisions in the Act are aimed at reducing fees for smaller entities. The new funding and fee-related provisions include:

- Providing the Director with fee and service setting authority (see Sec. 10(a));
- Revising the fee schedule to take place upon enactment, and including a new 15% surcharge to certain fees to go directly to the PTO starting 10 days after enactment (see Secs. 11 & 22);



- Providing “small entities” as defined by 35 U.S.C. § 41(h)(1) with a 50% fee reduction (see Sec. 10(b));
- Providing “micro entities” as defined by 35 U.S.C. § 123 with a 75% fee reduction (see Sec. 10(b));
- Establishing a “Public Advisory Committee” to advise on fees (see Sec. 10(c))

In addition, within three years after enactment of the Act, the PTO is to set up at least three new Satellite Offices around the Country, including one in Detroit, Michigan. (See Secs. 23 & 24).

- **Studies**

The Act also requires that a number of studies be performed, including:

- Within three years of enactment, a study of the new “virtual marking” provision of Section 16 (see Sec. 16(a)(3));
- Within four years of enactment, a study on the manner in which this Act is being implemented, its impact on competitiveness and innovation, and any recommendations for further changes in law or regulations (see Sec. 26);
- Within nine months of enactment, a study on effective ways to provide for independent, confirming genetic diagnostic testing where gene patents and exclusive licensing for primary genetic testing diagnostics exist (see Sec. 27);
- Within six months of enactment, establish a methodology for studying diversity of applicants, including those applicants who are minorities, women or veterans, without providing preferential treatment to such applications (see Sec. 29);
- Within 120 days of enactment, a study on how to help small businesses with international patent protection (see Sec. 31); and
- Within one year of enactment, a study on the consequences of patent litigation by non-practicing entities.

We are continuing to analyze and follow developments associated with the new law, and will post more reports on our website. Please look for our upcoming publications and speaking engagements on the scope and impact of the Act.



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