



Patent Reform: Are you Ready for Changes?



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Change may be threatening (or not)

"There is a certain relief in change, even though it be from bad to worse; as I have found in traveling in a stagecoach, that it often a comfort to shift one's position and be bruised in a new place."

— Washington Irving

Tales of a Traveler (1824)

"Whosoever desires constant success must change his conduct with the times."

— Niccolo Machiavelli

"People don't resist change. They resist being changed!"

— Peter Senge

Patent Reform under Leahy-Smith AIA

- With Leahy-Smith AIA now Law, as of September 16, 2011, patent practitioners need to be aware of the changes and their timing.
- The substantive changes become effective at various times between the September 16, 2011 date of enactment and March 16, 2013 (18 months following enactment).
- There are some required USPTO Reports due 3 and 4 years following enactment.
- A detailed listing of the effective dates for each section of the AIA appears on the USPTO web site:

http://www.uspto.gov/aia_implementation/aia-effective-dates.pdf

AIA Effective Dates

- Already in effect
 - Reexamination transition for threshold
 - Tax strategies are deemed within the prior art
 - Best mode
 - Human organism prohibition
 - Virtual and false marking
 - Venue change from DDC to EDVA for suits brought under 35 U.S.C. §§32, 145, 146, 154 (b)(4)(A), and 293
 - OED Statute of Limitations
 - Fee Setting Authority
 - Establishment of micro-entity
 - Prioritized examination
 - 15% transition surcharge
 - Electronic filing incentive
 - Reserve fund

AIA Effective Dates

Effective September 16, 2012

- - Inventor's oath/declaration
- Third party submission of prior art for patent application
- Supplemental examination
- Citation of prior art in a patent file
- Priority examination for important technologies
- Inter partes review
- Post-grant review
- Transitional post-grant review program for covered business method patents

AIA Effective Dates

- Effective March 16, 2013
 - First-to-File
 - Derivation proceedings
 - Repeal of Statutory Invention Registration

Major Provisions in Leahy-Smith AIA

1. Transitions to a first inventor to file system. (Section 3)
2. Changes requirements for oath and declaration. (Section 4)
3. Expands defense to infringement based on prior commercial use. (Section 5)
4. Replaces “optional inter partes reexamination” with “inter partes review.” (Section 6)
5. Establishes Patent Trial and Appeal Board to replace Board of Patent Appeals and Interferences. (Section 7)
6. Allows Preissuance submissions by third parties. (Section 8)
7. Changes Venue Requirements Where PTO is a Party (Section 9)
8. Revises fee structure - Provides 75% fee reduction for “micro entities.” (Sections 10 and 11)

Major Provisions in Leahy-Smith AIA (contd.)

9. Establishes procedure for supplemental examination. (Section 12)
10. Increases share of royalties retained by universities under the Bayh-Dole Act for federally funded inventions. (Section 13)
11. Strategies for reducing, avoiding or deferring tax liability are now deemed to be within the prior art. (Section 14)
12. Best Mode Requirement eliminated as a defense in infringement litigation. (Section 15)
13. Revises provisions relating to patent marking. (Section 16)
14. Failure to obtain advice of counsel can no longer be used to prove willfulness or induced infringement. (Section 17)
15. Establishes an 8 year transitional Program for review of the validity of certain business method patents. (Section 18)

Major Provisions in Leahy-Smith AIA (contd.)

16. Establishes Patent and Trademark Fee Reserve Fund. (Section 22)
17. Authorizes Director to provide for prioritization of examination of patent applications for products, processes, or technologies that are important to the national economy or national competitiveness. (Section 25)
18. Codified “Weldon Amendment” to prohibit issuance of a patent on “a claim directed to or encompassing a human organism. (Section 33)
19. Revised calculation of 60 day period for application for patent term extension. (Section 37)

First-to-file system (Sec. 3)

- This new section will not apply to any patent application with claims having an effective filing date prior to 18 months after enactment of the new bill (March 16, 2013).
 - The existing form of §102 will continue to apply to all pending applications and applications filed prior to March 16, 2013.
 - The existing form of §102 will continue to apply indefinitely for issued patents filed prior to March 16, 2013.

First-to-file system

- Currently 35 U.S.C. §102 effectively defines prior art with reference to the date on which the inventor made the invention.
- Prior art will now be defined with reference to when a patent application is filed.
- A more subtle difference is found in the substantive definition of “prior art” implied by the descriptions of the patent-negating acts, as defined in the amended version of §102.

First-to-file system

Currently, prior art is impliedly defined as information:

- Known in the United States (information "known or used by others in this country");
- Patented or described anywhere; and
- Described, in English, in a published patent application.

First-to-file system

As impliedly defined in amended §102, prior art will now consist of information:

- Patented or described in a printed publication anywhere;
- In public use or on sale or otherwise available to the public (anywhere); and In a patent or patent application with a filing date earlier than that of the claim under consideration.
- The phrase "or otherwise available to the public" may portend much dispute, particularly with respect to transitory Internet postings, etc.
- Both the present and amended §102 define a one-year grace period, but with a potentially significant difference.

First-to-file system

- U.S. patents and patent application publications are effective as prior art as of their priority date (no longer limited to U.S. priority date), provided that the subject matter relied upon is disclosed in the priority application.
- U.S. patents and patent application publications are effective as prior art as of their priority date (no longer limited to U.S. priority date), provided that the subject matter relied upon is disclosed in the priority application.
- File prior to March 16, 2013 to stay under the old law and take advantage of ability to swear behind prior art based on a prior invention date and claiming a grace period for third party disclosures.

Derivation Proceedings (Sec 3)

- Establishes “derivation” proceeding in place of interference proceeding for first-to-file applications and patents.
- A patent owner may file a civil action against the owner of another patent that claims the same invention and has an earlier effective filing date, if the invention claimed in the other patent was derived from the inventor of the invention claimed in the patent of the person seeking relief.
- The derivation proceeding must be filed within one year of the date of issuance of the first patent containing a claim to the allegedly derived invention and naming an individual alleged to have derived such invention as the inventor or joint inventor.

Revising Oath and Declaration Requirements (Sec 4)

1. Provides for assignee filing when the inventor is unable or unwilling to do so.
2. Removes the former requirement that the oath state a “lack of deceptive intent.”

Defense to Infringement Based on Prior Commercial Use (Sec 5)

1. Expands defense to infringement based on prior commercial use of the claimed invention.
2. Prior user rights (35 U.S.C. §273) is in the AIA for process, machine, manufacture or composition of matter used in manufacturing or other commercial process.
3. Expands defense to all areas of technology (beyond current restriction to business methods).
4. Requires showing of both reduction to practice and commercial use at least 1 year before effective filing date.
5. Provides exception for patents owned by universities or their technology transfer organizations - use need not be commercial but the defense applies only to continued noncommercial use.

Prior user rights (35 U.S.C. §273)

- Prior user rights (35 U.S.C. §273)

35 U.S.C. §273 Defense to infringement based on earlier inventor

(b) DEFENSE TO INFRINGEMENT-

(1) IN GENERAL- It shall be a defense to an action for infringement under section 271 of this title with respect to any subject matter that would otherwise infringe one or more claims for a method in the patent being asserted against a person, if such person had, acting in good faith, actually reduced the subject matter to practice at least 1 year before the effective filing date of such patent, and commercially used the subject matter before the effective filing date of such patent.

Prior user rights (35 U.S.C. §273)

- Prior user rights (35 U.S.C. §273)
 - AIA expands the prior user rights of 35 U.S.C. §273, extending those rights to all patents (not just business method patents) issuing after the date of enactment of the bill.
 - An alleged patent infringer will not be liable for infringement if it can prove (clear and convincing standard) that it used the invention "commercially" more than a year prior to the effective filing date of the allegedly infringed patent.
 - "Commercially" is given an expansive definition.
 - Does not amount to a general license - extends only to subject matter actually in use.
 - If no reasonable basis shown for asserting the defense - case may be exceptional to award attorney fees.

Post-grant review (Sec 6)

- *Inter partes* re-examinations already in progress will continue under current rules.
- New requests for *inter partes* re-examination may be filed under current rules until one year after the new bill is enacted.
- After that date, two new procedures are established: *Inter Partes* Review and Post-Grant Review.
- A request may be filed under either of these procedures, subject however to certain additional time limits.
 - A request for Post-Grant Review must be filed within nine months of patent issuance.
 - A request for *Inter Partes* Review may be filed only after nine months from patent issuance.

Post-grant review (Sec 6)

- In both cases, the requestor (or petitioner as referred to in the AIA) participates in the adjudication and may appeal an adverse decision, as may the patent owner, to the Federal Circuit.
- Several significant differences between current re-examination procedure and the new post-grant procedures include:
 - Current procedure is limited to patents issued after Nov. 29, 1999, while neither of the new procedures is so limited.
 - Currently, a requestor need only show a substantial new question of patentability (as compared to questions dealt with in the original examination of the patent), while a requestor under the new procedures must establish that there is a reasonable likelihood that at least one claim is unpatentable (and alternatively with respect to Post-Grant Review, that a novel or unsettled question of law is involved).

Post-grant review (Sec 6)

- Currently, inter partes re-examination, once instituted, is conducted within the patent examination corps by a special re-examination unit; while both of the new post-grant procedures are adjudicated and managed by the Patent Trial and Appeal board consisting of Administrative Law Judges.
- With respect to the two inter partes post-grant procedures under the AIA, the primary differences between Inter Partes Review and Post-Grant Review, relate to the prior art that may be considered, the patentability issues that may be raised, the threshold for review, and the estoppel created for the requestor.

Inter Partes Review (Sec 6)

1. AIA replaces “optional *inter partes* reexamination” with “*inter partes* review.”
2. IPR to be conducted by the new Patent Trial and Appeal Board” within one year (with possible 6-month extension for good cause) - will be an improvement of over the glacial pace of current reexamination.
3. Available for life of patent after later of 9 months from grant or termination of post-grant review.
4. Not available if filed more than 1 year after service of infringement complaint or if petitioner previously filed DJ action alleging invalidity.
5. Basis limited to patents or printed publications.
6. Intervening rights apply to any new or amended claims.

Inter Partes Review (Sec 6)

7. Threshold showing is “reasonable likelihood” that the petitioner will prevail.
8. Estoppel standard is “raised or reasonably could have raised” before the USPTO and the courts.

Post-grant review (Sec. 6)

- New procedures for submitting patent validity questions back to the Patent Trial and Appeal Board, after the USPTO issues the patent.
- Filed to review any patentability issue except “best mode.”
- Same deadlines for action, and limitations on petitioner, and intervening rights provisions as applied to new “inter partes review.”
- An important difference is that the threshold showing is “more likely than not” that at least one of the claims is unpatentable rather than the “reasonable likelihood” standard for inter partes review.

Post-grant review (Sec. 6)

- Estoppel standard applies estoppel to any issue that is “raised or could have been raised” before the USPTO and the courts.
- Provides that settlement agreements may be treated as “business confidential information” at the request of a party to the proceeding.
- The impact of these new procedures will generally not be felt for at least 18 months from enactment.
- Assuming average pendency (after a patent application publishes, and before a patent issues) remains at two or more years, these new procedures will not generally come into play for at least 3 to 4 years after enactment.

Post-grant review (Sec. 6)

- At that time, the impact will likely be significant. The European patent system (with a post-grant patent opposition system somewhat similar to the prospective U.S. system) upwards of 4 percent of granted patents face a post-grant opposition.
- If 4 percent of issued U.S. patents are submitted to post grant opposition in the United States, it could generate thousands of new post-grant proceedings each year.
- Many details of the post-grant system are relatively clear. How those details will be gamed and litigated is less clear.

Ex parte re-examinations are unchanged

- Ex parte re-examination, in which a patent owner or a third party submits prior art to the patent office for consideration, remains unchanged.
- If the requestor is not the patent owner (i.e., third party), the requestor plays no part in the re-examination process.
 - The requestor may submit only patents and printed publications for consideration and the patent office may consider patentability only with respect to novelty and obviousness issues.

Inter partes Review and Post-Grant Review

- In a Post-Grant Review, any and all prior art and any and all issues of patentability, including 35 U.S.C. §112 issues, may be considered and the requestor is estopped, in later PTO or ITC proceedings, from challenging the patent on any ground that reasonably could have been raised and, in any civil proceeding, on any ground that was raised.
- In Inter Partes Review, the requestor is limited, as in current Inter Partes Re-examination, to the submission of patents and printed publications and to issues of novelty and unobviousness. And the requestor is estopped from later raising any claim that was raised or reasonably could have been raised by petitioner.

Inter partes Review and Post-Grant Review

- Limited discovery is permitted under both of the new AIA post-grant procedures. The deposition of any witness who submits an affidavit or declaration and "what is otherwise necessary in the interest of justice" would be permitted in conjunction with Inter Partes Review.
- Post-Grant Review, in contrast, would allow for discovery of evidence "directly related to factual assertions advanced by either party."

Uncertainty re IPR and PGR

- Will the PTO be able to meet the aggressive timeline requirements?
- Will PGR and IPR be less expensive than litigation?
- Fees to challenge are likely to be far more than those for reexamination.
- Accelerated prosecution means the fees are likely to fall in a short time interval.

Patent Trial and Appeal Board replaces Board of Patent Appeals and Interferences (Sec. 7)

1. Establishes Patent Trial and Appeal Board to replace Board of Patent Appeals and Interferences.
2. Appeals, derivation proceedings, post-grant reviews and interpartes reviews will be heard by at least three members of the Board.

Provides for Preissuance Submissions by Third Parties (Sec. 8)

1. Allows Preissuance submissions by third parties of printed publications of potential relevance to examination.
2. Submission may be submitted before the earlier of a notice of allowance or the later of 1) 6 months after publication of the application or 2) date of first rejection.
3. Requires payment of a fee and “a concise description of the asserted relevance of the submitted document.

Revised Fee Structure (Secs. 10 and 11)

1. Revises fee structure - Provides 75% fee reduction for “micro entities.”
2. Requires additional \$400 fee (with 50% reduction for small entities) for patent applications not filed by electronic means.

3. Current fee schedule is codified.

<http://www.uspto.gov/web/offices/ac/qs/ope/fee092611.htm>

4. Establishes a \$4800 fee for a Request for Prioritized Examination which is in addition to the Utility Examination Fee.

PTO fee diversion

- Congress' practice of diverting U.S. Patent and Trademark Office revenue that exceeds the agency's budget to other government programs has been widely criticized in view of the acknowledged underfunding of the PTO and the deficiencies and inefficiencies in the patent examination process that many attribute to that underfunding.
- Rather than address this underfunding by permitting the PTO to use the fees it collects from users, Congress has regularly diverted these fees for other purposes.
- Although S. 23 would have corrected this by explicitly prohibiting such diversion, it was the House Bill H.R. 1249 that was adopted.

PTO fee diversion

- The AIA segregates the fees collected by the PTO in a separate account (called the “U.S. Patent and Trademark Office Public Enterprise Fund”) and limits expenditures from that account to PTO uses.
 - (3) DEPOSIT OF FEES.—All fees paid under this subsection shall be credited to the United States Patent and Trademark Office Appropriation Account, shall remain available until expended, and may be used only for the purposes specified in section 42(c)(3)(A) of title 35, United States Code.

Industry insiders say its unclear how the PTO could access those funds. The stated limitations in cited 35 USC 42(c)(3)(A) don't appear in the AIA or prior versions of 35 USC 42 (c).

- Fee anti-diversion, to the extent that it is provided is effective with the beginning of the next government fiscal year (October 2011).

Establishes Procedure for Supplemental Examination (Sec. 12)

1. Establishes procedure for patent owner to request Supplemental Examination of a patent to consider, reconsider, or correct information believed to be relevant to the patent.
2. If a “substantial new question of patentability” is raised, the director must order an *ex parte* reexamination.
3. A patent shall not be held unenforceable in litigation on the basis of conduct relating to information considered in a Supplemental Examination if such is concluded before the date an action is brought.
4. If the Director becomes aware of material fraud during the Supplemental Examination, the Director may take appropriate action and must refer the matter to the Attorney General.

Advantages of Supplemental Examination (Sec. 12)

1. Provides opportunity for submission, prompt review of art and determination of existence of substantial new question of patentability.
2. Opportunity to have a broader consideration over that which was available in traditional reexamination.
3. Ability to confirm enforceability of patents.

Increases University Share of Bayh-Dole Act Royalties (Sec. 13)

1. Increases share of royalties retained by universities under the Bayh-Dole Act for federally funded inventions.
2. Previously the split of the net was 75% government and 25% to the university.
3. The new split is 15% government and 85% to the university.
4. The change took effect September 16, 2011 for patents issued before, on or after that date.

Methods for reducing tax liability deemed prior art (Sec 14)

1. Strategies for reducing, avoiding or deferring tax liability are now deemed to be within the prior art (“insufficient to differentiate an invention from the prior art”).
2. Does not apply to a method, apparatus, technology, computer program product, or system, that is used solely for preparing a tax or information return or tax filing.
3. Further, does not apply to a product “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 tax payer or tax advisor.”
4. In drafting applications in this area, focus on features to help prepare tax returns and provide financial management services which are exceptions to the provision

Best Mode Requirement Eliminated as a Litigation Defense (Sec 15)

1. Best Mode Requirement eliminated as a defense to an issued patent in infringement litigation.
2. However the changes did not eliminate the requirement that the best mode be disclosed.
3. Commentators suggest that this may still be a post-issuance issue by an inequitable conduct or may even be a potential criminal issue for the drafting attorney.
4. Best mode remains a requirement and should not be ignored.

Revised Patent Marking Provisions (Sec. 16)

1. Revises provisions relating to patent marking.
2. Provides for virtual marking by posting patent information on the Internet.
3. Virtual marking provisions apply to all pending and future infringement cases.
4. Revises false marking *qui tam* statute to provide that only the U.S. may sue for the penalty.
5. Civil suits for false marking limited to persons suffering competitive injury and damages adequate to compensate for the injury may be recovered.

Effect of Failure to Obtain Advice of Counsel (Sec. 17)

1. The AIA states that Failure to obtain advice of counsel or to introduce such an opinion at trial can no longer be used to prove willfulness or that the infringer intended to induce infringement.
2. Do we still need to obtain advice of counsel? Yes.
3. AIA does not bar introducing opinion of counsel to show clean hands and evidence of a good faith belief that the patent in suit is not infringed.
4. Since the law is still emerging here, it is prudent to at least have such an opinion, whether or not it is later decided to introduce it at trial.

Establishment of Transitional Program for review of validity of certain business method patents (Sec 18)

1. Establishes an 8 year transitional Program for review of the validity of certain business method patents.
2. AIA requires PTO to issue rules for a transitional program to review validity of covered business method patents by September 16, 2012.
3. To file a petition to review a patent petitioner must have been sued or charged with infringement under that patent.
4. Collateral estoppel against petitioner in later proceedings on grounds raised during the transitional proceeding.

Establishment of Patent and Trademark Fee Reserve Fund (Sec. 22)

1. Established Patent and Trademark Fee Reserve Fund.
2. A far less restrictive approach than the prohibition on fee diversion that had been in the Senate Bill.

Authorized Prioritization of Examination of patent applications important to national economy (Sec. 25)

1. Authorizes Director to provide for prioritization of examination of patent applications for products, processes, or technologies that are important to the national economy or national competitiveness.
2. New Rules were published September 23, 2011.
3. Final disposition of priority examined application to occur within 12 months.
4. Need to take care to avoid inadvertent termination of priority status and to formulate appropriate international filing and continuation application strategies.

Prohibits Issuance of Patent on a claim directed to or encompassing a human organism (Sec. 33)

1. Codified the so-called “Weldon Amendment” to prohibit issuance of a patent on “a claim directed to or encompassing a human organism.”
2. Is it clear when is a patent claim “directed to...a human organism”?
3. Is that the same as “**having a claim scope that encompasses a human organism.**”
4. Is a method of treating a human disease “directed to a human organism”?
5. Stay tuned for possible technical amendments or PTO rule making to resolve the problematic ambiguity.

(See September 9, 2011 Comment in *Patently O* re “Patents Directed to Human Organisms)

Changed Patent Term Extension Filing Deadlines (Sec. 37)

1. Revised calculation of 60 day period for application for patent term extension in a provision added by the lobbying efforts of the WilmerHale firm to fix a situation where they filed too late to fall within former, strictly construed 60 day window.
2. Requires that the date of marketing approval, to begin the 60-day calculation, is the next business day if the time of transmission of approval is after 4:30 P.M. Eastern Time.
3. Applies to any application for term extension pending on, filed after, or as to which a decision regarding the application is subject to judicial review on the September 16, 2011 date of enactment.

See **Patently O** -“Lobbying for a Patent Term Extension”- July 6, 2011.

Some Final Thoughts

- In most cases, patent practitioners will have at least a year to prepare for these changes and prepare a thorough strategy - but many surprises may be anticipated as the many changes unfold.
- Because some of the statutory language is unclear, the drafting of and implementation of new Patent Office Rules and Guidelines will be the next battle ground.
- The AIA is not the final word on Patent Reform.
- What would you want to see in a next round of Patent Reform?



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