

September 9, 2011

## Congress Passes Patent Reform Bill

On September 8, 2011, the Senate passed the America Invents Act (H.R. 1249) (“the Act”), culminating a six year debate on patent reform in the United States. The Act is expected to be signed by the President, with some provisions taking effect immediately upon enactment, and others becoming effective on the one-year anniversary. The passage of this Bill would represent the first reform to the United States patent system in over 50 years, and usher in a number of significant changes that impact patent prosecution and litigation alike. While some of the more noteworthy reforms are outlined below, we encourage you to contact your Katten Muchin Rosenman LLP patent attorney to further discuss the scope of the revisions contained in this legislation and its impact on the United States’ patent system.

### I. First-Inventor-to-File

The Act will shift the United States from a first-to-invent system to a first-inventor-to-file system for establishing priority of patent applications. This first-inventor-to-file system is used by virtually every other patent system in the world.

The Act amends 35 U.S.C. §§ 102 and 103 to preclude the patenting of claimed inventions, and obvious variations thereof, that were “patented, described in a printed publication, or in public use, on sale, or otherwise available to public before the effective filing date of the claimed invention.” However, a one-year grace period is established for disclosures made by an inventor, joint inventor, or “by another who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor.”

Thus, the first-inventor-to-file system trades interference proceedings for “derivation proceedings” in which a later filing applicant for patent may submit a petition to challenge the earlier filed application’s claim to an invention. Such a petition must be filed within one-year from 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.” The Patent Trial and Appeal Board maintains the initial authority over derivation proceedings, and may defer action on any such petition until the expiration of a three month period after a patent issues on the claimed invention.

In addition to the amendments to § 102 that establish the first-inventor-to-file system, the Act subtly changes the scope of available prior art for novelty and obviousness determinations to include patents, patent applications, evidence of public use, sales or information *otherwise available to the public* before the filing date of the patent application. Thus, with this catch-all provision, these amendments appear to eliminate the previous distinctions between domestic and foreign disclosures in defining available prior art.

While the above amendments expand the universe of prior art available, other amendments appear to extend safe harbors for prior art authored by an inventor or joint inventor and prior art commonly owned at the time of disclosure and filing of the claimed invention.

For more information, please contact your Katten Muchin Rosenman LLP attorney, or any of the following members of Katten’s **Intellectual Property Practice**.

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## II. Post-Grant Review

Similar to the current European Patent practice, the Act establishes a new post-grant review process, in which a patent may be challenged under any ground of invalidity within one year after the patent is issued (or re-issued). The petitioner can assert “any ground that could be raised under 35 U.S.C. §§ 282(b)(2) or (3). The petition may be granted if the Director finds that 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.”

Any petition initiating a post-grant review must identify all real parties in interest, identify with particularity the grounds on which the challenge to each claim is based and must be filed before the petitioner files civil action challenging the patent. Once instituted, post-grant review must be completed within one year, unless the Director extends the time for up to six months.

The filing of a petition for post-grant review does not prevent a court from issuing a preliminary injunction concerning the patent under review. Additionally, any declaratory judgment action filed by the petitioner is automatically stayed unless consented to by the patent owner, the patent owner files an infringement claim against the petitioner or the petition requests dismissal of the declaratory judgment action.

The initial authority for hearing claims rests with the newly created Patent Trial and Appeal Board, discussed *infra*. All final decisions may be appealed directly to the Court of Appeals for the Federal Circuit. Furthermore, any final decision of validity in a post-grant review proceeding precludes the petitioner or real party in interest from (i) requesting any proceeding before the Office on the basis of any ground that the petitioner raised, or reasonably could have raised, during the post-grant review; and (ii) asserting invalidity in a civil action or International Trade Commission proceeding on the basis of any grounds raised by the petitioner in the post-grant review proceeding. Settlement prior to a final decision eliminates all estoppel provisions.

## III. Inter Partes Review

Similar to the post-grant review proceedings described above, the Act amends 35 U.S.C. §§ 311-318 and substitutes for inter partes reexamination a new inter partes review procedure. Inter partes review may be commenced only within one year after that grant of a patent or the termination of post-grant review, if one is filed, whichever is later. The PTO standard initiating inter partes review is whether there is a “reasonable likelihood that the petitioner would prevail with respect to at least one of the claims challenged in the petition.” This would appear to be a higher standard than the “substantial new question of patentability” for current inter partes reexaminations.

The nature of the petition, procedures for appeal and estoppel provisions for the inter partes review are similar to those set forth in the post-grant review procedure described above. Additionally, the inter partes review process may not be instituted if (i) the petitioner has previously challenged the patent in a civil action (excluding counterclaims in defense of infringement); or (ii) the petition is filed more than one year after the date on which the petitioner/real party in interest is served with a complaint.

A significant departure from current inter partes reexamination is the imposition in § 316 of a one year time limit for completing the inter partes review, which may be extended by up to six months. Another significant departure is that inter partes review will be conducted by the Patent Trial and Appeal Board, with an appeal directly to the Federal Circuit. This is in sharp contrast to the current system, in which decisions by the examiner in inter partes reexaminations are first appealed to the Board of Appeals, and only after that appeal is completed, to the Federal Circuit. The upshot of this amendment is that inter partes review should be completed much more quickly than current inter partes reexaminations, making this procedure much more attractive to defendants in patent infringement cases, and probably making it more likely that a court will stay a case pending inter partes review.

In inter partes review, the patent owner is entitled to file only one motion to amend the claims, except that an additional motion may be permitted upon a joint request by the patent owner and the requestor to materially advance settlement.

The estoppel provisions for inter partes review are the same as in post-grant review. Inter partes review may be settled by the parties so long as the Office has not decided the merits of the proceeding. In that event, the estoppel provisions will not apply.

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## IV. Patent Trial and Appeal Board

The Act establishes a new appeals division at the PTO entitled the Patent Trial and Appeal Board. This board will have the authority to (i) review adverse decisions of examiners under § 35 U.S.C. § 134(a); (ii) review appeals of reexaminations pursuant to 35 U.S.C. § 134 (b); (iii) conduct derivation proceedings (see section I *supra*); and (iv) conduct inter partes reviews and post-grant reviews pursuant to chapters 31 and 32 (see sections II and III *supra*).

Unlike present conditions at the PTO for reexaminations, the creation of this new board seeks to significantly reduce the time for inter partes and post-grant review procedures by reducing the available appeals. For example, inter partes review must be completed with one year, with a one time exception that the PTO can extend this deadline by six months for good cause.

## V. Prior User Rights Defense

Under the current law, prior user rights may be offered as a defense to infringement under 35 U.S.C. § 273 only in the limited context of business method patents. The Act expands the scope of prior user rights to include all inventions, including processes producing commercial products that were practiced in secret, which is a departure from existing case law. However, in order to assert a prior use defense under the amended section, the entity asserting the defense must have reduced the subject matter of the patent to practice and commercially used the subject matter at least one year before the effective filing date of the patent.

The Act does not make the defense available if (i) the subject matter of which the defense is based was derived from the patentee; or (ii) the claimed invention was disclosed to the public and the date of commercialization by the prior user is less than one year before the date of such disclosure.

## VI. False Patent Marking Suits

In response to the surge in false marking *qui tam* filings, the Act effectively eliminates these actions by non-competing third parties, by revising the remedy to allow only a party that has suffered a competitive injury as a result of false marking to seek compensatory damages in an amount related to the actual injuries suffered. The United States Attorney General may also bring such a claim, levying a \$500 per-article fine.

## VII. Transitional Business Method Post-Grant Review

In response to criticism relating to business method patents issued by the PTO, the Act seeks to create a transitional period to implement a provisional post-grant review proceeding for review of the validity of any business method patent. A petition to initiate a review will not be granted unless the petitioner is first sued for infringement or is accused of infringement. The transitional review process will operate in a similar manner to the post-grant review process discussed *supra*, however, there is no requirement that the post-grant review of a business method patent be filed one year from issuance. The petitioner may only base such a review on prior art described in § 102(a), as discussed in section I *supra*. Lastly, this portion of the Bill contains a “sunset” provision, causing this transitional procedure to expire in 10 years

## VIII. Joinder Rules

The amendments to 35 U.S.C. § 299 provide that, except for cases filed under § 271(e)(2), accused infringers may be joined in a single action 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... 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.”

Thus, the Act seeks to prohibit joinder of multiple defendants when the sole basis is that the accused infringers are accused of infringing the same patent. This portion of the Bill becomes effective immediately after enactment.

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## IX. Miscellaneous Provisions

### A. *Preissuance Submissions by Third Parties*

35 U.S.C. § 122 is amended to allow for post-publication third party submissions of patents, patent applications or printed publications relevant to the examination of the application if made before the earlier of the date of (i) a notice of allowance or (ii) six months after the date of first publication or the date of first rejection of any claim. Any submission must set forth a concise description of the relevance of the art submitted

### B. *Supplemental Examination*

35 U.S.C. § 257 is amended to permit a request for supplemental examination by the patent owner to request the office to “consider, reconsider, or correct information believed to be relevant to the patent.” Such a request is granted if the submitted information raises a “substantial new question of patentability,” in which case the Director will order a reexamination of the patent. This procedure can be used to cure inequitable conduct that may have been based on the failure to submit information, so long as the submission is made before an allegation of inequitable conduct is pleaded with particularity in a civil action or ITC action. However, the supplemental examination procedures cannot be used to cure fraud.

### C. *Tax Strategy Patents*

In response to a number of recent patent filings on strategies for complying with the Internal Revenue Code, the Act provides that “any strategy for reducing, avoiding, or deferring tax liability” shall be deemed insufficient to differentiate a claimed invention from the prior art. However, this section of the Bill does not apply to other parts of the invention, such as systems used for preparing tax returns or for financial management

### D. *Elimination of Best Mode Invalidity Defense*

35 U.S.C. § 282(b) is amended to eliminate as a defense to patent infringement the patentee’s failure to comply with the best mode requirement of 35 U.S.C. § 112 for both invalidity and unenforceability claims.

## X. Conclusion

The passage of the America Invents Act brings with it sweeping change to the patent system in the United States. While the Bill contains policy revisions that have ignited fierce debate, e.g., the PTO’s ability to set and retain the fees it collects, other expected changes did not make the final version of the Bill, e.g., venue and damages provisions.

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