

Outside Counsel

Expert Analysis

Congressional Breakthrough On Patent Reform Likely This Fall

While the U.S. Congress currently seems to be at an impasse on bipartisan legislation on a wide variety of important matters, to its credit it has almost reconciled nearly 60 years of debate over how to improve the existing patent statute that it enacted in the 1950s. This new patent reform bill, dubbed the “America Invents Act” (AIA), seeks to bring the United States into conformity with patent laws around the world, spur innovation to create American jobs, as well as increase the quality and strength of U.S. patents. Congress also hopes to reconcile the trend of U.S. Supreme Court reversals of Federal Circuit decisions which it sees as evidence that patents under the current law are perhaps too easy to obtain and too difficult to challenge. See H.R. Rep. 112-98 at 39 n.7.

On Sept. 8, 2011, the U.S. Senate agreed to a patent reform bill that already made its way through the U.S. House of Representatives, clearing the way for President Barack Obama to sign the final bill into law. When this happens, there will likely be dramatic changes in how one approaches and defends patentability. This article will examine some of the most important: The shift from the current first-to-invent system to a first-to-file regime, the changes to the patent filing grace period, what the new actions for patent derivation will mean, and how the new post-grant review provisions will permit new administrative, extra-judicial challenges to an issued patent.

First-to-File

One of the most significant changes in the new law will be the shift from the present “first-to-invent” system to a “first-to-file” system. Under §102 of the AIA:

A person shall be entitled to a patent unless—(1) the claimed invention was patented, described in a printed publication, or in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention; or (2) the claimed invention was described in a patent issued under §151, or in an application for patent published or deemed published under §122(b), in which the patent or application, as the case may be, names another inventor and



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was effectively filed before the effective filing date of the claimed invention.

The term “effective filing date” is defined as the actual filing date of the patent application.

This simple change of wording from “before the invention thereof” in the current statute to the words “before the effective filing date” changes the assignment of “order” to the invention process, or “priority,” from the first person to invent, to the first person to file the patent application. Under this new first-to-file system, the filing date will be used to determine priority and patentability, whereas under the current first-to-invent regime, the date of conception (and reduction to practice) is paramount.

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While this shift represents a sea change to one of the most fundamental aspects of U.S. patent law, the first-to-file system is already the status quo in most foreign countries around the world. Congress believes this regime will also simplify the patent application process and make determination of priority more certain, furthering the goals of reducing costs and patent backlog in the U.S. Patent and Trademark Office. The director of the USPTO David J. Kappos views the first-to-file system as an “essential feature” of any patent reform legislation, adding “transparency” and “objectivity” to the patent system. Statement of Under Secretary Kappos to the House Subcommittee on Intellectual Property, Competition and the Internet Committee on the Judiciary, March 30, 2011.

The current regime disadvantages American inventors seeking patent protection abroad because it forces them to navigate the sometimes conflicting

logistics of two very different filing systems, Congress notes. It is believed that aligning the U.S. patent regime with that of international systems will encourage American inventors to file abroad and help the United States maintain its “competitive edge in the global economy.” H.R. Rep. 112-98 at 40.

Because using the filing date to determine priority shifts the focus away from who invented first, a first-to-file patent statute eliminates those portions of the current patent statute related to challenging a patent or patent application based on dates of conception or reduction to practice, i.e., the entire interference practice. Some argue that this change is unconstitutional because the Constitution guarantees to authors and inventors, for “limited times...the exclusive right to their respective writings and discoveries.” See, e.g., Rebecca C.E. McFadyen, “The ‘First-to-File’ Patent System: Why Adoption Is NOT an Option!” 14 Rich. J.L. & Tech. 3 (2007). They view the first-to-file system to violate the Constitution because it does not provide the property rights to the invention to the “inventor.” Rather, it awards the ownership right to the first person to file with the patent office, which may not be the “inventor.”

Others argue that the first-to-file system disadvantages small business and individual inventors because they may not be aware of the rules. In his statement to Congress, Mr. Kappos urged that the first-to-file system will not significantly harm small inventors, stating that in the past seven years, only one independent inventor’s filing out of the three million total filings was able to show he or she was the first inventor and would have received a different outcome under the new first-to-file system. Kappos Statement, March 30, 2011.

Nonetheless, even Congress recognizes the potential that a first-to-file system may stifle innovation from small businesses and individual inventors. As such, the AIA will require the USPTO to monitor the effect of the first-to-file scheme on small businesses and inventors through ongoing studies of the new system. “Congressionally-Directed Studies and Reports,” at http://www.uspto.gov/patents/init_events/aia_implementation.jsp.

Limited Grace Period

To temper the rigidity of the first-to-file system, the AIA provides a one-year grace period during which disclosure by the inventor before the effective filing date will not affect patentability. The bill states that “disclosure made 1 year or less before the effective filing date of a claimed invention shall not be prior art” if “(A) the disclosure was made 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; or (B) the subject matter disclosed had, before such disclosure, been publicly disclosed by the inventor or a joint inventor or another who obtained the subject matter disclosed directly or indirectly from the inventor or a joint inventor." AIA §102(b)(1).

Such disclosures include where the invention was described in a patent, printed publication or in public use. Thus, under the new statute, the disclosures protected by the grace period are only those by the inventor or derived from the inventor. Under the current patent statute, the one-year grace period applies to public disclosure by anyone. The one-year grace period allows the inventor time to prepare and file patent applications, as well as obtain funding that enables adequate preparation of applications.

The usefulness of this provision, however, may be limited because a first-to-file system generally inures to the benefit of the person who files first and any disclosure prior to filing may undermine an inventor's position. Any disclosure by the inventor creates the danger that another may file on that invention, where the only remedy to the disclosing inventor may be a costly derivation proceeding/action. Derivation proceedings (AIA §135) and actions (AIA §291) will be new proceedings under the AIA to determine the first inventor, where the "proceeding" is a pre-grant patent office proceeding and the "action is a post-grant civil action." Derivation proceedings and actions may be viewed as an effort to meet the Constitution's mandate to provide the patent property rights to the "inventor," even though another applicant may have filed first.

Opposition Procedures

Pursuant to the goals of providing ways to challenge weak patents while avoiding the costs of litigation, the AIA introduces Patent Office procedures that will allow third parties to challenge the validity of granted U.S. patents.

Current patent law provides two procedures to challenge the validity of an issued patent: an *ex parte* reexamination or an *inter partes* reexamination proceeding. Both of these reexamination procedures may be brought before the PTO but applies to prior art only, i.e., these procedures do not allow challenges based on §101 (utility, eligibility) or §112 (enablement, indefiniteness, written description or best mode). Moreover, current *ex parte* reexamination gives third parties very limited input and appeal rights.

The current *inter partes* reexamination, enacted in 1999, was intended to solve some of these problems but has been used very infrequently in practice. In a five-year study by the USPTO (2000-2004), only 53 requests for *inter partes* reexamination were filed out of more than 900,000 patents issued. This statistic convinced Congress that new opposition procedures that parties would actually use are needed. Thus, Congress now repeals the current *inter partes* reexamination procedure and create two new opposition procedures partially modeled after the European opposition procedure. PTO Director Kappos agrees that these new procedures will "minimize costs and increase certainty by offering efficient and fast alternatives to litigation as a means of reviewing questions of patent validity."

Post-Grant Review. Under the new post-grant review procedure, a third party may petition the USPTO to cancel as unpatentable one or more claims of a patent on any ground that could be raised in the USPTO. A post-grant review may be requested up to

12 months after the issuance of the patent.

The specific aim of the post-grant review is to "enable early challenges to patents, while still protecting the rights of inventors and patent owners against new patent challenges unbounded in time and scope." H.R. Rep. 112-98 at 47-48. Once a post-grant review is initiated, both parties can submit evidence (i.e., documents or expert opinions) and the patent owner can propose claim amendments. An oral hearing may also be requested.

The scope of the post-grant review is broad, allowing opposition based on anticipation (§102), obviousness (§103), written description (§112), or mistake (§251). A post-grant review is not permitted if a civil action with a claim of patent invalidity is pending. If a civil action containing a claim for invalidity is filed after a post-grant review is initiated, the civil action is stayed unless the patent owner (1) moves the court to lift the stay, (2) files another civil action or counterclaims for infringement based on the patent, or (3) moves the court to dismiss the civil action. AIA §325(a)(2).

Further, a final decision in favor of the patentee will prevent the petitioner, real party in interest, or privy of the petitioner from challenging any patent claim in a later civil action on "any ground that petitioner raised or reasonably could have raised during that post-grant review." AIA §325(e)(2). This estoppel (also present in the criticized *inter partes* reexamination) may, in practice, dissuade practitioners from using the post-grant review procedure.

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Inter Partes Review. Under the new *inter partes* review procedure, a third party can also petition to cancel as unpatentable one or more claims but only based on novelty and obviousness issues. This review procedure can be instituted only after the later of either (1) 12 months after the grant or reissuance of a patent, or (2) the termination of post-grant review. Similar to the post-grant review, estoppel will attach to any basis of invalidity that the petition raised or reasonably could have raised during the *inter partes* review. A previously filed *inter partes* review for a patent also stays a civil action challenging the validity of that patent.

The threshold basis for filing an *inter partes* review is a higher standard than that of the post-grant review procedure. Once the proceeding is instituted, both parties can submit documentary and expert evidence in support of their position. Like the post-grant review, the patent owner may propose claim amendments and request an oral hearing.

One outspoken critic of the new opposition procedures, former Chief Judge of the U.S. Court of Appeals for the Federal Circuit Paul R. Michel, has spoken extensively about these provisions, warning that multiple, serial post-grant opposition

proceedings are a "torpedo" to the patent system that "should be disarmed." Michel, "Torpedoing Patent Rights," <http://ipwatchdog.com/2011/07/10/torpedoing-patent-rights/>. Judge Michel predicts that the multiple rounds of proposed administrative review will lead to the disastrous result of decreasing the value of patents.

Although the opposition procedure functions quite effectively in Europe, it remains to be seen whether the new procedures will be embraced in the United States. In Europe, the EP opposition procedure provides an efficient one-stop means to invalidate a weak patent throughout Europe. If a third party fails to challenge an EP patent during the opposition period, its only recourse is to file separate nullity actions in each of the EP countries the patentee has protection, which is costly and time-consuming.

Moreover, patent expertise in the national courts varies greatly from country to country in Europe. Therefore, it behooves any party wishing to challenge a patent to promptly file an opposition in the European patent office. Also, there is no estoppel in European procedure, so the opponent who loses the opposition and is later sued in a European national court for infringing the same patent may reassert arguments made during the opposition proceedings. No similar incentive exists in the United States. In fact, many third parties will likely prefer to not file an opposition and instead wait to challenge the patent if and when the patent is asserted against them in an infringement action. This tactic avoids potential estoppel issues and avoids the risk that the patent may be strengthened if it survives an opposition.

Conclusion

It remains to be seen whether the congressional goal of correcting a perceived leniency of the USPTO in granting U.S. patents will be realized in the AIA legislation. This "leniency" has been addressed to a measurable degree in the practical reality of patent law today in the face of Supreme Court decisions: It has tightened patentability standards, such as obviousness (*KSR Int'l Co. v. Teleflex Inc.*, 550 U.S. 398 (2007)), making it tougher to obtain and enforce patents, and loosened the threshold basis for bringing a validity challenge (*MedImmune Inc. v. Genentech Inc.*, 549 U.S. 118 (2007)). Further, infringement standards have been loosened such that it is more difficult to enforce patents, such as with induced infringement (*Global-Tech Appliance Inc. v. SEB*, 131 S. Ct. 2060 (2011) (induced infringement requires knowledge that the induced acts constitute patent infringement)), limiting patents' extraterritorial reach (*Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007)) and rejecting automatic injunctive relief in patent cases (*eBay Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006)).

To its credit, if the AIA can practically address all of its intended goals, it will reverse a trend of judicial decisions that create the perception of "weak" U.S. patents on the world's stage by placing hurdles in the path of patent owners who wish to enforce their patent rights against infringers. However, what remains to be seen is which aspects of the AIA will itself be used as new avenues in which patents will be challenged. For better or worse, the AIA brings about a sea change to some of the most fundamental underpinnings of U.S. patent law.