



FULBRIGHT WHITE PAPER
*Leahy-Smith America Invents Act –
Patent Reform 2011 Is Finally Here*

John E. Schneider

FULBRIGHT
& Jaworski L.L.P.

The Leahy-Smith America Invents Act (the “Act”) is the most sweeping change to American Patent Law since the enactment of the current law in 1952. The Act brings the United States closer to a European-style system by introducing a first-to-file system and a Post Grant Review process that is similar to Oppositions conducted in the European Patent Office. The Act also includes several provisions addressing hot-button issues in litigation, including amending the joinder standard for joining defendants in a patent infringement action and eliminating *qui tam* false marking actions entirely. Finally, the Act addresses other issues including United States Patent and Trademark Office (“PTO”) funding, marking requirements, and the best mode requirement.

This paper looks at the more significant provisions of the Act and discusses some of the ramifications of those provisions. Other provisions are also summarized.

I. FIRST-TO-FILE SYSTEM

A. First-to-file

The Act changes the United States from a first-to-invent system to a first-to-file system similar to that found in the rest of the world. The adoption of the first-to-file system will be delayed for eighteen months after the Act becomes law. During that time the Act calls for two studies to be conducted to look at the effect of the first-to-file system on small businesses and to consider whether the United States should adopt prior user rights. Both studies are to be completed within one year of enactment. The delayed effective date gives Congress six months to make changes to the first-to-file system after the reports are sent to Congress.

B. Redefined Prior Art

To implement the change to a first-to-file system, the Act amends Section 102 to state that a person shall be entitled to a patent unless it was made available to the public, sold or offered for sale anywhere in the world, or patented or described in a publication before the effective filing date of the claimed invention.

Patents and published patent applications become prior art as of the effective filing date of the patent or application. The Act defines the term “effective filing date” as the actual filing date of an application or the filing date of the earliest application for which the patent or application is entitled for that invention. This definition includes claims of priority under 35 U.S.C. §§ 119, 365(a), and 365(b) as well as the benefit of an earlier filing date under 35 U.S.C. §§ 120, 121, and 365(c). The Act also defines the term “claimed invention” as “the subject matter defined by a claim in a patent or application for a patent.” Thus, the key question in determining the effective filing date of a patent or application is whether the priority document discloses the elements of the challenged claim.

C. Exceptions to First-to-file

The first-to-file system adopted by the Act contains two significant exceptions. First, an inventor is entitled to a one year grace period for disclosures made by the inventor or by one who

obtained the disclosed information from the inventor. The term “disclosure” is left undefined and will likely be the subject of litigation when these provisions take effect. Second, the Act excludes certain narrow categories of patents and published applications that encompass the inventor’s own work. These categories include patents and applications that disclose information obtained from the inventor; that were derived from information described in a publication by the inventor or one who obtained the information from the inventor, or that were owned or subject to an obligation to assign to a common owner. Patents and applications arising out of work covered by a joint research agreement may fall within this last exception.

The exceptions listed in the Act do not specify how one can prove that the exceptions apply to a specific application. Presumably declarations or affidavits can be used to establish that a reference is not prior art or that the information disclosed was obtained from the inventor.

D. Derivation Proceedings

The Act eliminates interferences, but creates a new proceeding called a derivation proceeding. In a derivation proceeding, the sole issue is whether the invention in one patent was derived from the work claimed in another later filed patent or application.

The Act retains the two track system now found in interferences, with patent versus patent proceedings heard in District Court and patent versus application proceedings and application versus application proceedings heard in the PTO by the Patent Trial and Appeal Board (“PTAB”) (formerly the Patent Board of Appeals and Interferences).

For proceedings in the PTO, the Act requires that a proceeding be initiated within one year of the publication of a claim that is the same, or substantially the same, as the claim in an earlier application. The petition must contain substantial evidence supporting the assertion that the claimed invention was derived from the petitioner. If the director determines that sufficient evidence has been presented, a derivation proceeding will be declared.

The PTO is charged with developing the rules for conducting derivation proceedings. Derivation proceedings may be deferred pending the outcome of a reexamination, *Inter Partes* Review, or Post Grant Review proceeding.

While the parties to a derivation proceeding may terminate the proceeding by settlement, the settlement agreement must be approved by the PTAB. Unless the PTAB finds the settlement to be inconsistent with the evidence of record, the settlement will be approved and filed with the PTO.

A final judgment will result in a final rejection of the claims at issue in a pending application or in the cancellation of claims of an issued patent.

E. Obviousness

The Act changes the time at which obviousness is determined. Under the new Section 103, one considers the differences between the invention and the prior art as of the effective filing date of the invention rather than as of the date of invention.

Section 103(c) has been incorporated into Section 102 as discussed above. Thus, commonly owned patents and publications are not deemed prior art for any reason. This expands the reach of Section 103(c), which presumably was limited to prior art that qualified as such under old Sections 102(e), (f), or (g). Section 103(b) has been deleted entirely.

II. POST ISSUANCE PROCEEDINGS

In addition to the adoption of a modified first-to-file system, the Act makes major changes to post issuance review of patents. In addition to retaining the current reissue and *Ex Parte* Reexamination proceedings, the Act replaces *Inter Partes* Reexaminations with *Inter Partes* Reviews and adds new Post Grant Review and Supplemental Examination proceedings.

A. Inter Partes Review

The Act replaces *Inter Partes* Reexamination with a new procedure called *Inter Partes* Review. Like reexamination, *Inter Partes* Review will be limited to issues stemming from Sections 102 and 103 and will be limited to patents and publications.

One difference between an *Inter Partes* Review and *Inter Partes* Reexamination is the time when a petition for review can be filed. Under the Act, a petition for *Inter Partes* Review cannot be filed until nine months after a patent has been granted, or, where Post Grant Review has been initiated against a patent, until after the Post Grant Review is complete.

Another difference between *Inter Partes* Reexamination and *Inter Partes* Review is the standard for determining if a petition should be granted. Previously, the standard for granting a petition was whether the petition raised a substantial new question of patentability. The new standard for granting *Inter Partes* Review is whether there is a reasonable likelihood that the petitioner will prevail with respect to at least one of the challenged claims.

The Act also seeks to speed up the *Inter Partes* Review process. The Director must reach an initial decision on the requestor's petition within three months of filing. If the petition is granted, the PTAB must issue a final decision within one year. The one year period may be extended for up to six months upon a showing of good cause.

A third party must choose between an *Inter Partes* Review and filing a Declaratory Judgment action. The Act states that where a party has already filed a Declaratory Judgment action, *Inter Partes* Review is unavailable.¹ Where *Inter Partes* Review has already been sought, any later filed

¹ This provision does not apply if the Declaratory Judgment is plead as a defense to an infringement action.

Declaratory Judgment action will be automatically stayed unless the petitioner can convince the judge to lift the stay, the patent owner responds with an allegation of infringement in the same or another case, or the case is dismissed.

Finally, as with *Inter Partes* Reexamination, the estoppel provisions of the Act prevent a party from raising references that were raised, or could have been raised, in an *Inter Partes* Review in a later PTO, District Court, or International Trade Commission proceeding. In an *Inter Partes* Review, the preponderance of evidence standard applies, rather than the clear and convincing standard.

While the Act allows the PTO to develop its own rules concerning conduct of *Inter Partes* Reviews, it does require that the rule address specific topics. Discovery will be permitted but will be limited to depositions of anyone submitting an affidavit or declaration during the proceeding or where it is otherwise in the interest of justice. The Act calls for sanctions for discovery abuses. Amendments are permitted, including offering substitute claims similar to the practice in European Opposition proceedings, but only narrowing amendments may be made. Any amendments made may result in intervening rights.

Settlement and termination of an *Inter Partes* Review can occur at any time up to the point that the PTO has decided the merits of the proceeding. Termination by settlement does not trigger the estoppel provision of the Act. Settlements must be in writing and filed with and accepted by the PTO. Settlements may be kept confidential if the parties so request.

A final decision by the PTAB will be issued in writing and result in the issuance of an IPR certificate. The certificate will not issue until after any time for appeal has expired or any appeal has concluded. Appeals may be filed directly with the Court of Appeals for the Federal Circuit.

B. Post Grant Review

The other major proceeding for challenging the validity of a patent is the Post Grant Review proceeding. While similar to the *Inter Partes* Review proceeding, a Post Grant Review permits a third party to raise any grounds for invalidity listed in 35 U.S.C. § 282.

The threshold for instituting a Post Grant Review is different than that for an *Inter Partes* Review. A Post Grant Review may be initiated if the information in the petition, if not rebutted, demonstrates that it is more likely than not that at least one of the challenged claims is unpatentable. The petition may also be granted if it raises a novel or unsettled legal question important to other patents or patent applications. The PTO Director must decide whether to initiate a Post Grant Review within three months of receiving the petition.

Another difference between Post Grant Review and *Inter Partes* Review is the window in which review may be sought. As with a European Opposition proceeding, Post Grant Review must

be filed within nine months of patent issuance or issuance of a broadening reissue.² This means that a party considering a Post Grant Review must begin marshalling its arguments and evidence as soon as it learns that a patent will issue. Careful monitoring of competitors' patents during prosecution will become an important part of tracking competitors' patents.

The Act also forces a party to choose between challenging a patent in the PTO or in the court (either by seeking declaratory judgment or by waiting for litigation to develop and asserting invalidity at that time). The Act states that if a Declaratory Judgment action has already been filed, the party that filed the action may not subsequently file a petition for Post Grant Review. Similarly, if a petition for Post Grant Review has been filed and the requestor then files a Declaratory Judgment action, the Declaratory Judgment action will be stayed. Further, like the estoppel provisions for *Inter Partes* Review, the Act precludes a party from raising an issue that was, or could have been, raised in a Post Grant Review in a later PTO, District Court, or International Trade Commission ("ITC") proceeding.

The Act also limits the Court's ability to stay an action when the alleged infringer files a Post Grant Review. If an infringement action is filed within three months of issuance, a Court may not stay consideration of a request for a preliminary injunction on the basis that a petition for Post Grant Review has been filed or that Post Grant Review has been initiated.

While the Act calls for the PTO to develop rules for the conduct of the Post Grant Review, the Act does contain some specific requirements. As with *Inter Partes* Review, discovery is available in Post Grant Reviews. Discovery is limited, however, to evidence relating to the factual assertions made by the parties. Narrowing amendments and alternate claim sets are also permitted under the Act.

The remaining provisions relating to Post Grant Review are similar to those for *Inter Partes* Review.

C. Supplemental Examination

Supplemental examination gives a patent owner the opportunity to address any validity issues uncovered after the patent is granted. It is commenced when the owner files a petition with the PTO raising at least one new substantial question of patentability. While this procedure appears similar to *Ex Parte* Reexamination, a key difference is that Supplemental Examination is not limited to patents and publications. If the PTO determines that a substantial new question of patentability has been raised by the owner, the patent then undergoes reexamination following the procedures for *Ex Parte* Reexamination.

Supplemental Examination also provides a patent owner the ability to purge inequitable conduct by disclosing the issue during Supplemental Examination. An attempt to purge inequitable

² Prior versions of the Act also allowed a defendant in an infringement suit to file a petition for Post Grant Review within six months of the service of the complaint. This provision was dropped when the Act was approved by the House of Representatives.

conduct must be done before any effort is made to enforce the patent in District Court or before the ITC or before the owner receives a notice of invalidity under the Food Drug and Cosmetic Act. However, if the PTO determines that a substantial fraud was committed during the earlier prosecution, the PTO may cancel the claims and refer the matter to the Justice Department for criminal prosecution.

D. Interim Program for Certain Business Method Patents

Business method patents that relate to financial products or services can be challenged in the PTO as part of a special eight year program. The program allows a party accused of infringing such a patent to file for Post Grant Review of the patent at any time, and to seek a stay while the Post Grant Review is underway.

The Act allows the petitioner to challenge the patent under the provisions of Sections 102 and 103 as they currently exist except that the petitioner may only rely on Sections 102 (a) and 102(b) prior art. Otherwise most provisions of the Post Grant Review section of the Act apply. The notable exceptions are that a petition under this program may be filed at any time during the life of the program and the life of the patent and, in the case of a reissue patent, it is not limited to broadening reissues.

If a party elects to challenge a patent under the interim program, the party will be precluded from raising the same arguments in a subsequent proceeding.

E. Implementation

The Act calls for a gradual implementation of both Post Grant Reviews and *Inter Partes* Reviews. The PTO has twelve months to develop the new rules for the procedures. Then, for the following four years, the PTO may limit the number of reviews it initiates each year provided that the number of reviews initiated is greater than or equal to the number of reviews initiated the previous year. In addition, during the twelve-month period after enactment, the standard for granting petitions for *Inter Partes* Reexamination changes to that for granting *Inter Partes* Reviews.

Supplemental Examination and the Interim Program for Certain Business Method Patents will be available one year after enactment with no limitation on the number of petitions that may be granted.

F. Patent Trial and Appeal Board

Coupled with the institution of the new review proceedings, the current Board of Patent Appeals and Interferences will become the PTAB. In addition to hearing appeals from final rejections, the PTAB will hear derivation proceedings, *Inter Partes* Reviews, and Post Grant Reviews. This change will significantly increase the workload of the PTAB.

III. INVENTOR OATHS

The Act amends the requirements for inventors' oaths and codifies the procedure for filing a substitute oath.

A. Oath Requirements

The Act retains the requirement that the application name each inventor and that each inventor submit an oath or declaration. The inventors must state that they caused the application to be filed, or that they authorized it to be filed, and that they believe they are the inventors of the invention claimed in the application. The inventors' oath and assignment may now be combined into a single document.

B. Substitute Statements

The Act sets forth the requirements for substitute statements where an inventor's oath cannot be filed. The Act sets forth four circumstances where a substitute statement can be filed: 1) the inventor is dead; 2) the inventor is legally incapacitated; 3) the inventor cannot be reached or found despite diligent effort; or 4) the inventor refuses to execute the oath and has assigned the invention to another or is under a legal obligation to assign the invention to another.

Any statement filed under this provision must identify the inventor to which the statement pertains and set forth detailed facts establishing that at least one of the four above criteria applies.

C. Subsequent Applications

The Act eliminates the need for filing a new oath or declaration for each newly filed related application. The PTO may require that copies of the earlier filed documents be filed with the new application.

IV. PRIOR COMMERCIAL USE DEFENSE

The defense based on prior commercial use has been modified by the Act. The defense is no longer limited to a method practice as part of a commercial use. It has been expanded to include machines, articles of manufacture, and compositions of matter used in manufacturing or in a commercial process. The defense has also been extended to entities that own, are owned by, or share a common owner with the entity that performed or directed the commercial use. This change means that the defense may be available to affiliated companies even if they did not perform the commercial use.

The Act contains one significant exception, which affects University-owned technology. While laboratory use by a University or non-profit research lab falls within the prior commercial use defense, a commercial use of technology owned by a University does not qualify for the defense.

V. THIRD PARTY SUBMISSIONS OF PRIOR ART

The Act provides for two different types of third-party submissions to the PTO, one during prosecution and one after prosecution.

A. Submissions During Prosecution

Any third party may submit copies of patents, published applications, and printed references for consideration in any pending application. The submission must be made within six months after the application publishes or before the first substantive office action, whichever is later. In either case the submission must be filed before a notice of allowance is issued. Essentially, this change means that a party wanting to make a preissuance submission should do so as soon after publication as possible.

The Act sets forth the minimum content for any preissuance submission. In addition to identifying the references to be considered, the submission must concisely explain the relevance of each submitted reference. The submitter must also include a statement that the submission conforms with the requirements of the Act.

B. Post Grant Submissions

Any person at any time may cite to the PTO prior art relevant to any claim of a patent or any statement made by the patent owner filed with any Federal Court or the PTO relating to the scope of any claim in the patent. As with the preissuance submission, the post grant submission must be in writing and must provide a short explanation of the relevance of the art or statement to at least one claim in the patent.

The PTO will not consider the submission after a patent is granted unless an *Ex Parte* Reexamination, *Inter Partes* Review, or Post Grant Review is instituted. Until such occurs, the submission is merely maintained in the file.

VI. NON-PATENTABLE SUBJECT MATTER

Under the Act, certain inventions relating to tax strategies and inventions directed to or encompassing human beings are not patentable.

A. Tax Strategies

The Act states that strategies for reducing, avoiding, or deferring tax liability are deemed prior art for purposes of Sections 102 and 103. This provision effectively renders such strategies unpatentable.

Two exceptions are provided. First, inventions relating solely to the preparation of tax returns are exempt. Second, inventions relating to financial management are also exempt.

This provision of the Act takes effect when enacted and applies to applications pending on or after that date and to patents issued on or after that date.

B. Humans

The Act specifically prohibits the issuance of any claim directed to or encompassing a human organism. The prohibition applies to applications pending on or filed on or after the date of enactment. It does not apply to any patent issued before that date.

VII. OTHER SUBSTANTIVE PROVISIONS

The Act also deals with a number of other substantive issues including attorney opinions, the Best Mode Requirement, false marking *qui tam* actions, and virtual marking.

A. Attorney Opinions

The failure of a defendant to either obtain an opinion of counsel regarding a patent or to present such advice at trial may not be used to prove willful infringement or intent to induce infringement.

B. Best Mode

While the Act retains the best mode requirement of Section 112, failure to comply with the best mode requirement is no longer a ground for asserting either invalidity or unenforceability.

C. False Marking

Qui tam actions based on false marking are eliminated. False marking actions can only be brought by the United States, or in cases where a party has suffered actual economic harm from the false marking. In the case of economic harm, the damages are limited to such economic harm. In addition, marking a product with an expired patent that covered the product at one time is not deemed to be false marking. This provision takes effect when the Act becomes law and applies to pending and future actions.

D. Virtual Marking

The Act provides an alternative way of marking patented products. In addition to the traditional method, a product may now be marked with the word “patent” or abbreviation “Pat.” followed by a web address that can be accessed for free and that associates the product with one or more patents. This provision offers a patentee a means for continually updating the list of patents that cover a product without having to redesign the product’s label or packaging.

VIII. PROCEDURAL PROVISIONS

The Act also contains provisions relating to several procedural issues including venue, jurisdiction, removal of certain actions, and joinder of parties.

A. Joinder

Joinder of parties to an infringement action will be more difficult under the Act. Defendants or counterclaim defendants may be joined only if the allegations against them arise out of a common occurrence, transaction, series of occurrences, or series of transactions and there are common issues of fact. It is insufficient grounds to seek joinder merely because each party is accused of infringing the same patent.

B. Venue**1. Actions against the PTO**

Actions against the PTO, which were previously filed in the District Court for the District of Columbia, must be filed in the District Court for the Eastern District of Virginia. Similarly, interference and derivation actions will be brought in the Eastern District of Virginia. This provision takes effect when the Act is enacted and applies to actions filed on or after that date.

2. ATM Machines

For an infringement action to enforce a business method patent for financial services, an ATM machine is not deemed to be a regular and established place of business for determining venue.

C. Jurisdiction**1. Exclusive Jurisdiction of Federal Courts**

The Act reinforces the exclusive jurisdiction of Federal Courts in patent matters by amending 28 U.S.C. § 1338 to read that no State Court shall have jurisdiction to any claim arising under an Act of Congress relating to patents, plant variety protection, or copyrights. The Act also expands the definition of a State to include the District of Columbia, Puerto Rico, the Virgin Islands, Guam, Samoa, and the Mariana Islands.

2. Federal Circuit Jurisdiction

The Act also amends the jurisdiction of the Federal Circuit to include appeals from *Inter Partes* Reviews, Post Grant Reviews, and Derivation proceedings. In addition, the Act modifies 28 U.S.C. § 1295(a)(1) to clarify that the Federal Circuit's jurisdiction includes cases where a counterclaim is based on an Act of Congress relating to patents or plant variety protection.

D. Removal of Actions

To reinforce the exclusive jurisdiction of the Federal Courts over patent, plant variety protection, and copyright claims, the Act adds a new Section 1454 that provides for the removal of actions involving a claim by any party based on patent, plant variety protection, or copyright to Federal District Court. The provisions of 28 U.S.C. 1446 apply to such motions with the

exceptions that any party may move for removal and the time limits in Section 1446(b) may be extended for cause.

Where an action had been removed under Section 1454, the District Court must remand to State Court any claims that do not arise under the District Court's original or supplemental jurisdiction. Additionally, the District Court may remand claims that arise solely under the Court's supplemental jurisdiction.

IX. PTO OPERATIONS

The Act addresses various aspects of PTO operations, including fee setting, PTO funding, establishment of satellite offices, establishment of the PTAB, and studies to be conducted by the PTO.

A. Fee Setting

The Act grants the Director of the PTO the authority to set fees with some congressional oversight. The fee setting provisions take effect 60 days after the Act becomes law and end seven years later.

1. Micro-Entity

The Act established a new micro-entity fee level, which is 75% less than the large entity fee. Micro-entities are generally solo inventors who have filed less than four patent applications prior to the present application and who have an annual income of less than three times the median household income for the prior year. Employees of Institutions for Higher Learning, as well as the Institutions themselves, may also claim micro-entity status.

2. Paper Application Filing Fee Surcharge

To encourage all applicants to file electronically, the Act provides that the PTO shall charge a \$400 filing fee surcharge for each utility patent application filed in paper form. The charge does not apply to provisional applications. The fee will be reduced by 50% for small entities.

B. PTO Funding

The Act provides that any fees collected by the PTO in excess of what it needs for its operations will be placed in a separate reserve fund in the Treasury. The PTO will not have direct access to these funds, and will need to seek specific congressional appropriations for their use.

C. Appointment of Administrative Patent Judges

The Act certain issues regarding the validity of the APJ appointments. While the Act states that the Secretary of Commerce must appoint the APJs, the Act allows the Secretary to deem the date of appointment as the date the PTO director appointed the APJ. The Act also provides that the

APJs acting under a Director's appointment shall be deemed de facto officers thereby preserving the validity of any decisions they may have made.

D. Satellite Offices

Following the establishment of a satellite office in Detroit, the Act authorized the PTO to establish up to three additional satellite offices. The satellite offices are to be established in areas where there are scientifically and technically knowledgeable individuals who could be patent examiners. The satellite offices are to be established in the next three years in different regions of the country.

E. PTO Studies

The Act calls for a series of studies by the PTO that address a wide variety of topics including the effect that the first-to-file provisions will have on small businesses, prior user rights, the effect the Act has on innovation and protection of technology, the availability of independent genetic testing where the primary test is patented, and improving international patent protection for small entities. The Act also calls for the General Accounting Office to conduct a study on litigation by non-practicing entities or patent assertion entities.

F. Patent Term Extension

The Act changes the timing of the 60 day window in which an application for patent term extension following review by the Food and Drug Administration must be filed. If the approval is received after 4:30 PM Eastern Time, it will be treated as though the approval was received the next business day. This adjustment applies to all applications for an extension pending or filed on or after the date of enactment. It also applies to applications where judicial review of the application has been sought.

X. CONCLUSION

After almost a decade of effort, patent reform is here. The changes in patent law contained in the Act represent both challenges and opportunities for intellectual property owners and intellectual property law practitioners.

This White Paper was prepared by [John E. Schneider](mailto:jschneider@fulbright.com) (jschneider@fulbright.com or 713 651 5462) from Fulbright's [Intellectual Property and Technology](#) Practice Group.