

REPORT

UPDATED ANALYSIS OF AMERICA INVENTS ACT (AIA)

Updated November 22, 2011

I. Introduction

On September 16, 2011, President Obama signed into law the America Invents Act (AIA), a patent reform bill that includes a number of significant revisions to U.S. Patent Law. The various aspects of the AIA go into effect at various times, from immediately upon enactment to 18 months from enactment, and will be implemented automatically and through future rulemakings. A chart of effective dates and applicability terms appears in Appendix A.

The following matters have been updated as of the dates noted below:

Electronic Filing Incentive (November 22, 2011)
Prior Commercial Use Defense (November 22, 2011)
First-Inventor-to-File (November 22, 2011)
Derivation Proceedings (November 22, 2011)
Declaration Practice (November 22, 2011)
Post-Grant Review (October 27, 2011)
Transitional Post-Grant Review for Business Method Patents (October 27, 2011)
Micro entity fees (September 30, 2011)
Track 1 Priority Examination (September 30, 2011)
Interim New Standard for Inter Partes Reexamination (September 30, 2011)
Effective Dates and Applicability (September 30, 2011)
Fee Schedule (September 30, 2011)

Of immediate importance, the AIA:

- increases patent fees;
- creates a future "micro entity" fee category;
- sets fees for fee-based accelerated examination;
- grants fee-setting authority to the Patent Office;
- eliminates failure to disclose best mode as an invalidity defense;
- allows for virtual patent marking;
- relaxes the law relating to false marking;
- changes the threshold standard for *inter partes* reexamination;
- expands the "prior commercial use" infringement defense beyond business method patents;

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- makes "tax strategy" patent claims unpatentable; and
- restricts joinder of unrelated defendants in patent infringement actions.

Sixty days after enactment, the AIA will apply a penalty fee to paper-filed patent applications.

One year or more after enactment, the AIA will:

- convert the U.S. patent system to a first-inventor-to-file system;
- redefine the realm of prior art and gradually eliminate interference practice;
- effectively eliminate incorrect inventorship as a ground for invalidity, other than in newly established derivation proceedings;
- relax requirements for inventor declarations;
- overhaul Patent Office *inter partes* patentability challenges, including:
 - introducing new post-grant review (opposition) proceedings;
 - replacing *inter partes* reexamination with newly established *inter partes* review proceedings;
 - expanding provisions for pre-issuance third-party submissions of prior art in pending patent applications;
- allow patentees to request supplemental examination to have information considered after a patent has been granted;
- eliminate failure to obtain advice of counsel as evidence of willful infringement or inducement of infringement; and
- make various other changes.

Important aspects of the more significant law revisions, their effective dates and applicability, and our recommendations, are discussed in detail below. We have grouped the changes in two groups: (1) changes that are immediately effective or will shortly become effective, and (2) changes that will take effect a year or more after enactment. As the Patent Office establishes rules to implement various provisions of the AIA, we will issue additional Special Reports addressing those rules. Also, we will discuss the effects of the AIA on U.S. patent law and practice at our upcoming Intellectual Property Training Institute, which will be held at our offices from October 23, 2011 - November 4, 2011.

For ease of reference in view of the scope and complexity of the legislation and the consequent length of this Special Report, a Table of Contents for this Special Report is provided below. A complete copy of the AIA is available in the News and Events section of our website, www.oliff.com.

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II. Changes that Will Take Effect Immediately

A. Patent Office Fee Increase

Section 11 of the AIA increased patent fees for large and small entities by 15%. Patent Office fees are now at the levels shown in the attached fee schedule.¹

Effective Date: These increased fees are now in effect, but may change in the future when the Patent Office exercises its new fee setting authority.

B. Electronic Filing Incentive

Section 10 of the AIA imposes a new \$400 penalty fee (\$200 for small entities) for all utility patent applications that are not filed electronically using the Patent Office's Electronic Filing System (EFS-Web). This fee applies to PCT National Phase applications, continuation applications, divisional applications, and CIP applications, as well as new original applications. This fee does not apply to provisional applications, design patent applications, or plant patent applications, and does not appear to apply to reissue applications.

In view of this new penalty fee, we highly recommend electronically filing applications whenever possible. It remains our policy to try to electronically file all eligible applications unless a client specifically instructs us not to file electronically.

In addition, the Patent Office's electronic filing system is occasionally unavailable due to technical issues in that system. At present, we paper-file applications on days that EFS-Web is not working, in order to obtain the earliest possible U.S. filing date or to meet a filing deadline. Absent contrary instructions, when this penalty fee goes into effect we will begin holding applications for next-day electronic filing when EFS-Web is unavailable, if filing deadlines permit such a delay, in order to avoid the paper-filing penalty fee. Thus, please send your applications early enough to accommodate such possible delays, or let us know if you prefer to paper-file when necessary to obtain an earlier filing date.

Effective Date and Applicability: This new fee now applies to all patent applications filed non-electronically.

C. Micro Entity Discount

Section 10 of the AIA adds new 35 U.S.C. §123 that establishes a new "micro entity" category of applicant that will be entitled to a 75% discount (as compared to the "small entity" 50% discount) if the applicant qualifies for that status at the time of payment of patent fees. The Patent Office will not accept

¹ The USPTO's complete fee schedule is available on the USPTO website at: <http://www.uspto.gov/web/offices/ac/qs/ope/fee092611.htm>. Some amounts in the USPTO's fee schedule differ from amounts initially reported in our September 9 and 14 Special Reports due to the USPTO employing a different rounding approach than that specified in the AIA.

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fees at a micro entity rate until after it has set new fees under the fee setting authority provided for in Section 10 of the AIA.

An application will qualify for "micro entity" status when the applicant(s):

- (1)
 - (a) Qualify as a small entity;
 - (b) Have not been named as an inventor on more than four previously filed U.S. non-provisional patent applications (not including applications assigned based upon prior employment);
 - (c) Did not have a gross income of more than three times the median U.S. household income in the calendar year preceding the year in which the fee is paid (the currently relevant median U.S. household income is about \$50,000); and
 - (d) Have not conveyed and are not obligated to convey rights in the application to an entity that had a gross income of more than three times the median U.S. household income in the calendar year preceding the year in which the fee is paid;² **or**
- (2) Are employed by (and derive the majority of their income from) or have conveyed or are under an obligation to convey rights in the application (including ownership or license rights) to an "institution of higher education" as defined by 20 U.S.C. §1001(a).

According to 20 U.S.C. §1001(a), an "institution of higher education" only includes U.S. entities. Thus, applications having applicant(s) that are employed by or have conveyed or are under an obligation to convey ownership or license rights in the application to a foreign educational institution will not be entitled to "micro entity" status unless the applicant(s) meet requirements (1) (a) - (d).

The Patent Office is authorized to impose other limits on micro entity status by regulation. We would expect it to do so to avoid granting such status to large entities that might otherwise arrange limited licenses or ownership rights in an institution of higher education for the sole purpose of obtaining micro entity status.

Effective Date: The Patent Office will accept fees at a micro entity rate after it has set new fees under the fee setting authority provided for in Section 10 of the AIA.

² These requirements assume that applicants are always individuals (i.e., inventors). However, as noted below, new § 118 now provides for corporate applicants. The AIA provides no guidance on how or whether these requirements would be applied to corporate applicants. This may be clarified by a future Patent Office rulemaking.

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D. Patent Office Fee Setting Authority

Prior to the AIA, the U.S. Congress set most Patent and Trademark fees, and could change them with virtually no advance notice (as with the present legislation). This can make it difficult to adequately plan for fee changes. Section 10 of the AIA gives the Patent Office fee setting authority. Section 10 establishes a procedure by which the Patent Office must notify the public of an upcoming fee change and provide for public comment on the fee change.

According to the new procedure, the Patent Office must publish a notice of a proposed fee change in the Federal Register. After publication in the Federal Register, there will be a public comment period of 45 days. After consideration of the comments, a final rule changing fees will be published. The final rule cannot take effect until at least 45 days after the final rule is published. This new provision thus requires that the Patent Office provide at least 90 days from publication of proposed fee changes before they take effect to allow applicants to plan for the fee change.

The Patent Office presently intends to provide eight months from publication of a notice of a proposed fee change until publication of a final rule changing fees. Thus, including the 45 day period before the final rule can take effect, applicants should have about 9.5 months notice of future Patent Office fee changes if the Patent Office carries through with this intention.

Effective Date: The Patent Office was granted fee setting authority immediately upon enactment of the AIA.

E. "Track 1" Priority Examination

Section 11 of the AIA establishes a \$4800 fee (\$2400 for small entities and no designated micro entity fee) for prioritized examination. This fee can be changed in accordance with the Patent Office's fee setting authority.

The Patent Office has now issued final rules establishing a "Track 1" program for fee-based prioritized examination that corresponds with the Patent Office's previously suspended Track 1 program other than the fees. *See* 76 Fed. Reg. 59,050 (September 23, 2011) and our April 6, 2011 Special Report describing the "Track 1" program.

"Track 1" examination, as defined by the Patent Office's rulemaking, has the following additional requirements:

- The application must be a complete utility or plant nonprovisional application (i.e., with Declaration and filing fee, search fee, examination fee, extra claims fee, and application size fee);
- The application must be filed with request for prioritized examination, prioritized examination fee, processing fee (\$130), and publication fee;

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- Utility applications must be electronically filed;
- The application cannot have more than four independent claims and thirty total claims;
- The application cannot have multiple dependent claims; and
- The application would lose prioritized status if (1) any extensions of time are taken by the applicant, or (2) an RCE or Notice of Appeal is filed.

Prioritized examination will allow applications to be more quickly examined for a fee without the burdensome requirements of "Accelerated Examination." See Section III of our April 6 Special Report for a comparison of various ways to expedite examination of a U.S. patent application.

Effective Date: Prioritized examination is now in effect.

F. Effect of Failure to Disclose Best Mode

Section 15 of the AIA (1) removes failure to disclose the best mode from 35 U.S.C. §282 as an invalidity defense against infringement, (2) appears to preclude an inequitable conduct defense during infringement litigation even for intentional failure to disclose the best mode, and (3) removes from 35 U.S.C. §§ 119(e)(i) and 120 the requirement that best mode be disclosed in a U.S. priority or parent application to support filing date benefits.³ The failure to disclose best mode also cannot be raised in a pre-issuance third-party submission, petition for post-grant review, petition for *inter partes* review, request for interim *inter partes* review, or request for *ex parte* reexamination.

Disclosure of the best mode remains a requirement under 35 U.S.C. §112, first paragraph.⁴ We recommend continuing to disclose the best mode in all patent applications, for at least the following reasons.

If the best mode is not disclosed, an Examiner could reject the claims under 35 U.S.C. §112, first paragraph, on this basis during prosecution (although it is unlikely that the Examiner will become aware of a best mode that is not disclosed during prosecution).

Although the amendment to 35 U.S.C. §282 makes clear that failure to disclose the best mode no longer provides an invalidity or unenforceability defense, the failure to disclose the best mode could have other ramifications in litigation. For example, if an applicant intentionally withholds the best mode from a patent application, and instead discloses an embodiment that is not preferred, and a patent is subsequently issued and litigated, the patentee might face accusations of failing to enable the full scope of the claims. This could result in the patent being invalidated under 35 U.S.C. §112, first paragraph, for lack of

³ Courts have imposed a best mode requirement for foreign priority applications to support foreign priority benefits, but this was not a statutory requirement. We would expect the courts eventually to eliminate this distinction for foreign priority benefits in view of the changes to U.S. priority benefits made by the AIA.

⁴ As part of the conforming amendments in the AIA, one year after enactment of the AIA, the six paragraphs of 35 U.S.C. §112 will be respectively designated (a)-(f). Thus, pre-AIA §112, first paragraph, will become §112(a).

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enablement. Failure to disclose the best mode might also be used to bias the court and/or a jury against the patentee.

In addition, if an attorney knowingly fails to disclose the best mode, the attorney may be subject to disciplinary action by the Patent Office. For example, ethics rule 37 C.F.R. §10.23(b)(4) prohibits an attorney from engaging in "conduct involving dishonesty, fraud, deceit, or misrepresentation." §10.23(d) defines "[d]eceptive statements of half-truths or concealment of material facts" as fraud within the disciplinary rules. Thus, if an attorney files an application knowing that the application does not disclose the best mode as required by 35 U.S.C. §112, first paragraph, the attorney might be disciplined for committing fraud as defined by §10.23(d) in violation of §10.23(b)(4).

Additionally, §10.23(c)(2)(ii) prohibits "[k]nowingly giving false or misleading information or knowingly participating in a material way in giving false or misleading information, to ... [t]he Office or any employee of the Office." Thus, if an attorney that files an application knows that the application does not disclose the best mode as required by 35 U.S.C. §112, first paragraph, the attorney might be disciplined for knowingly participating in a material way in giving misleading information to the Patent Office in violation of §10.23(c)(2)(ii).

To avoid violation of the above disciplinary rules, an attorney who is aware of a best mode violation would be required to withdraw from representation of the applicant(s) and/or assignee regarding the application.

Effective Date and Applicability: The changes in section 15 are now in effect and apply to all proceedings commenced on or after the date of enactment.

G. Patent Marking

Section 16 provides for virtual marking of patents in 35 U.S.C. §287(a) and revises the false marking provisions of 35 U.S.C. §292.

1. Virtual Marking

Section 16 of the AIA amends 35 U.S.C. §287(a) to newly allow "virtual marking" by placing patent information on the Internet instead of on the product. Products may be marked with (1) the word "Patent" or abbreviation "Pat." and (2) an Internet address containing patent information. The Internet address must be accessible by the public free of charge.

This change lessens the burden of having to continually update patent numbers on products to ensure that recovery of damages will not be restricted due to failure to mark applicable patent numbers on patented goods. This change will also make it easier for companies to avoid allegations of false marking, because it will be easier to update "virtual marking" when errors in marking are uncovered.

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2. False Marking

Section 16 changes 35 U.S.C. §292 so that (1) only the United States government may sue to recover the statutory penalty for false patent marking, and (2) only a party that has suffered a competitive injury resulting from false patent marking may sue for recovery of resulting damages. Section 16 also specifies that marking a product with the number of a patent that had covered the product, but is expired, is not false marking.

Previous §292 (as construed by the Federal Circuit) had allowed members of the public to sue on behalf of the United States, and recover half of the statutory penalty (up to \$500 per article falsely marked), irrespective of any competitive injury. In the last few years, there have been thousands of lawsuits by "non-practicing-entity" (NPE) plaintiffs seeking to recover this penalty. Many of these lawsuits involved marking with the numbers of expired patents. As a result, companies found themselves defending and/or settling multiple false marking cases that carried enormous potential liability.

The changes to §292 will have an immediate effect on most of the §292 lawsuits currently pending in court. Courts will likely dismiss most of these suits on motion by defendants, with the few exceptions being those cases in which the plaintiff can allege a competitive injury related to the false marking.

The clear benefit of this change will be that companies will not have to worry about being sued by NPEs for false marking, and if a company is currently being sued for false marking by an NPE, the lawsuit can be easily dismissed.

Effective Date and Applicability: The changes in section 16 are now in effect and apply to all proceedings pending on or commenced on or after the date of enactment of the AIA.

H. Interim New Standard for *Inter Partes* Reexamination

As discussed in detail below, section 6 of the AIA replaces *inter partes* reexamination with "*inter partes* review" one year after enactment of the AIA. However, during that interim year, the AIA amends 35 U.S.C. §§ 312 and 313 to change the threshold standard for the grant of an *inter partes* reexamination request from a "substantial new question of patentability" (SNQ) to "a reasonable likelihood that the requester would prevail with respect to at least one of the claims challenged in the request." The Patent Office issued a final rule confirming this change by replacing the SNQ standard with the "reasonable likelihood" standard in 37 C.F.R. §§ 1.915, 1.923, 1.927, and 1.931. *See* 76 Fed. Reg. 59,055 (September 23, 2011).

This interim standard, which is the same standard that will be used for *inter partes* review, will be more difficult to meet than the previous SNQ standard. Under the previous SNQ standard, a prior art reference would establish an SNQ if it "presents a new non-cumulative technological teaching that was not previously considered and discussed on the record during prosecution of the application that resulted in the patent for which reexamination is requested, and during the prosecution of any other prior proceeding

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involving the patent for which reexamination is requested." See MPEP §2616. Thus, under the SNQ standard, it was possible that a prior art reference could present a new non-cumulative technological teaching, but would not render any claim of the patent unpatentable either by itself or when combined with another reference. See MPEP §2642. Conversely, the interim "reasonable likelihood" standard seems more difficult to meet because it suggests that the Patent Office would at least have to agree with a ground for rejection of at least one of the challenged patent's claims in the decision on a Request for Reexamination for the standard to be met.

The standard for *ex parte* reexamination will remain the SNQ standard.

While this new interim standard for *inter partes* reexamination is stricter, we do not believe that it will have a dramatic effect on third-parties' decisions to file requests for *inter partes* reexamination during the interim period. This is because, from the requester's point of view, the goal of an *inter partes* reexamination is to have one or more of the patent's claims narrowed or canceled. Thus, in most cases, a requester will not (and should not) file an *inter partes* request for reexamination unless it has a strong belief that one or more claims of the subject patent are unpatentable. If the Request is well-prepared, the Patent Office will most often agree that at least one claim is unpatentable for purposes of a first Office Action, and thus should find that there is "a reasonable likelihood that the requester would prevail with respect to at least one of the claims challenged in the request."

As discussed below with respect to *inter partes* review, this new standard may have more of an effect on requests for the new *inter partes* review procedure.

Effective Date and Applicability: This new interim standard applies to all *inter partes* requests for reexamination filed on or after the date of enactment of the AIA, until one year after enactment (the date that "*inter partes* review" takes effect).

I. No District Court Review for *Ex Parte* Reexamination

Section 6 of the AIA amends 35 U.S.C. §306 to remove the ability of a patentee to contest in a federal district court an adverse decision of the Board of Patent Appeals and Interferences (BPAI) in an *ex parte* reexamination. As a result of this change, a patentee can only contest an adverse *ex parte* reexamination decision of the BPAI (or the new Patent Trial and Appeal Board (PTAB), discussed below) in an appeal to the U.S. Court of Appeals for the Federal Circuit.

Effective Date and Applicability: This change applies to any appeal of an *ex parte* reexamination that is filed or pending before the BPAI on, or brought in the BPAI or PTAB after, enactment of the AIA.

J. Infringement Defense Based on Prior Commercial Use

Section 5 of the AIA amends 35 U.S.C. §273 to expand the scope of the existing prior use defense for business methods to subject matter (1) consisting of a process, or (2) consisting of a machine,

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manufacture, or composition of matter used in a manufacturing or other commercial process. Thus, certain prior commercial use of patented subject matter will be a defense to infringement for a much larger group of patents, not just business method patents.

A party asserting the defense must prove by clear and convincing evidence that, at least one year prior to the earlier of the effective filing date of the claimed invention and an exception-creating prior disclosure under new §102, the party:

- (1) actually reduced to practice the subject matter of the patent, and
- (2) made a defined commercial use of the subject matter of the patent in the United States (including non-public commercial uses).

The relevant commercial use defined in the AIA is 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. The AIA further defines such commercial uses as including subject matter that is undergoing required premarketing regulatory review for safety or efficacy, and certain uses by nonprofit research laboratories or other nonprofit entities for which the public is the intended beneficiary.

Section 5 provides two exceptions to the defense. First, the defense does not apply against certain patents owned by or subject to an obligation of assignment to a U.S. institution of higher education or a technology transfer office associated with such an institution. Second, the defense cannot be asserted by a person who derived the subject matter at issue from the patent holder or persons in privity with the patent holder.

Like the previous prior use defense for business methods, this defense encompasses non-prior art (i.e., non-public or secret) commercial uses. Also, this defense does not invalidate the patent, but grants a defensive right to the continued use of an invention patented by another. The defense cannot be licensed or otherwise assigned to other entities, unless ownership of the party entitled to the defense changes through "an ancillary and subordinate part of a good faith assignment or transfer for other reasons of the entire enterprise or line of business to which the defense relates."

To discourage frivolous use of this expanded defense, if the defense is pleaded by a person who (1) is found to infringe the patent and (2) fails to demonstrate a reasonable basis for having asserted the defense, then the court must automatically find the case exceptional for the purpose of awarding attorney fees to the patent holder.

As a practical matter, a party that can successfully establish a prior commercial use defense should consider not seeking to invalidate the patent at issue. This is because that party will have a royalty-free license to continue its activities, and thus an advantage over other competitors subject to the patent. However, successful assertion of the defense does not create a broad license to the entire patent—the license extends only to the specific claim(s) for which that defendant is able to establish the defense. This

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means that the defense may not cover variations in claims, related patents, reissue of the patent, or improvements, absent a broader settlement.

Effective Date and Applicability: This expanded defense applies to any patent issued on or after the date of enactment of the AIA.

K. Tax Strategies

Section 14 of the AIA provides that strategies for reducing, avoiding, or deferring tax liability are not patentable. In particular, any such tax strategy, whether known or unknown at the time of invention or application for patent, is statutorily deemed already within the prior art, and thus cannot be considered novel or nonobvious.

The AIA defines tax liability, in this regard, to refer to any liability for a tax under any Federal, State, or Local law, or the law of any foreign jurisdiction, including any statute, rule, regulation, or ordinance that levies, imposes, or assesses such tax liability. However, this provision does not apply to inventions that are (1) 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, or (2) used solely for financial management, to the extent that they are severable from any covered tax strategy or do not limit the use of any covered tax strategy by any taxpayer or tax advisor.

This provision is intended to prevent the patenting of any tax strategy that would reduce, avoid, or defer tax liability, but explicitly does not bar the patentability of tax return preparation methods, or financial management methods that are severable from any covered tax strategy. Thus, any exploitation of a loophole within the tax code or scheme related to a tax strategy that could reduce, avoid, or defer liability will likely fall under the purview of this new law and will be deemed indistinguishable over the prior art. However, many computerized record preparation or financial management inventions may still be patentable even though their usefulness lies in their relationship to tax calculation and payment.

Because of the facially broad language of this new provision, when drafting business method applications, we recommend avoiding characterizing the invention in a manner that could be construed as describing the invention as being directed to reducing, avoiding, or deferring tax liability. Additionally, because this provision will apply to all currently pending applications as well, we recommend reviewing relevant pending applications to ensure that the claims (1) do not characterize the invention in a manner that could be construed as being directed to reducing, avoiding, or deferring tax liability, or (2) fall within one of the identified exceptions.

Effective Date and Applicability: This new provision took effect upon enactment of the AIA and applies to any patent application that is pending on, or filed on or after enactment, and to any patent that issues on or after enactment.

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L. Joinder of Accused Infringers in a Civil Action

Section 19 also adds new 35 U.S.C. §299 to change the rules under which multiple defendants can be joined in the same patent infringement lawsuit.

Patent owners, especially Non-Practicing Entities (NPEs), often sue many defendants in a single lawsuit to decrease their own expenses and increase the complexity and expense to the defendants, on the grounds that suing for infringement of the same patent involves questions of law common to all defendants. Under new §299(a), a plaintiff can only join multiple defendants when the plaintiff can demonstrate (1) joint and several liability for the same acts of alleged infringement among the defendants, or (2) that the alleged infringement arose out of the same transactions or events. Under new §299(b), a mere allegation that various defendants have infringed the same patent in the lawsuit is expressly rejected as sufficient grounds for joining accused infringers in a single lawsuit. However, accused infringers can waive this limitation.

This change may increase the costs to NPEs in their litigation-based licensing efforts, potentially causing them to limit some of those efforts. In addition, if lawsuits proceed in parallel in different venues, there could be conflicting claim construction, validity, and/or infringement rulings among the different venues.

Effective Date and Applicability: This change took effect upon enactment of the AIA and applies to any civil action commenced on or after enactment.

M. Venue for Actions Against the Patent Office

Section 19 of the AIA amends 35 U.S.C §§ 32, 145, 145, 154(b)(4)(A), and 293 to specify that the United States District Court for the Eastern District of Virginia, headquartered here in Alexandria a few blocks from our office, will replace the United States District Court for the District of Columbia as the venue for civil actions against the Patent Office. This change applies to any civil action commenced on or after the date of enactment of the AIA.

III. Changes that Will Take Effect One Year or More After Enactment

A. First-Inventor-to-File

Section 3 of the AIA makes sweeping changes to 35 U.S.C. §§ 102 and 103 to shift the United States patent system from a first-to-invent system to a first-inventor-to-file system. Each of the changes to §§ 102 and 103 is discussed in detail below.

Effective Date and Applicability: The changes to §§ 102 and 103 take effect 18 months from the date of enactment, and will apply to any application or patent that contains or contained at any time a claim having an effective filing date on or after eighteen months from the date of enactment, or having a specific

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reference under §§ 120, 121, or 365(c) (i.e., a claim to continuation, divisional or continuation-in-part (CIP) status) to an application that contains or at any time contained such a claim.⁵

Thus, for example, the filing in a CIP application of claims relying on new matter more than 18 months after enactment of the AIA will result in new §§ 102 and 103 being applied to all of the claims of the CIP application and of any continuing applications claiming benefit of that CIP application. This is the case even if (1) the new matter is subsequently completely removed from the claims of the CIP application, and/or (2) the claims of a continuing application claiming benefit of the CIP application do not rely on any of the new matter.

1. Amendments to §102

Former sections 102(a)-(g) are replaced with new sections 102(a)-(d). Under new 35 U.S.C §102, a claim's effective filing date is its actual or priority filing date. Acts and prior art that bar issuance of a claim in a patent include public use, offers for sale, publications, and other acts that make subject matter available to the public prior to the effective filing date, other than disclosures covered by the §102(b) "grace period." New §102 expands the nature of prior art that can be applied against a U.S. patent application or patent compared to prior §102.

a. New §102(a)

New §102(a) defines what constitutes prior art. New §102(a) reads:

- (a) *NOVELTY; PRIOR ART.*—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 section 151, or in an application for patent published or deemed published under section 122(b), in which the patent or application, as the case may be, names another inventor and was effectively filed before the effective filing date of the claimed invention.

New §102(a) redefines what qualifies as prior art to a claimed invention. There are no longer any geographic limitations on prior art; for example, the "in this country" limitation as applied to "public use" and "on sale" is eliminated. Thus, a public use or offer for sale of a product anywhere will be considered prior art under §102(a)(1). The phrase "otherwise available to the public" additionally broadens the scope of relevant prior art (e.g., to encompass oral presentations). There is some debate over whether that phrase further requires that everything preceding it in §102(a)(1), including "on sale," must be "available to the public." That debate will only be resolved by future court decisions.

New §102(a)(2) has elements similar to those found in former §102(e), in that U.S. patents and patent applications that name another inventor and were effectively filed before the effective filing date of

⁵ There appears to be an exception to this applicability as to pre-AIA §102(g) under certain limited circumstances discussed below.

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the claimed invention, but are published after the effective filing date of the claimed invention, qualify as prior art. "Effectively filed" is defined in §102(d), discussed below, and unlike prior §102(e), establishes prior art status based on foreign priority dates as well as U.S. filing dates. There will also no longer be a requirement that a PCT international application be published in the English language, or that it enter the U.S. or any other national phase as long as it is filed with a designation of the United States (which is currently automatic in almost all PCT applications), for a PCT publication, or a U.S. patent or U.S. patent application based on it, to qualify as prior art as of its effective filing date. This change very significantly expands the scope of PCT-based prior art.

b. New §102(b)

New §102(b)(1) provides a one year "grace period" for certain "disclosures," and new §102(b)(2) excludes certain patents and published applications from qualifying as prior art. New §102(b) reads:

(b) EXCEPTIONS.—

(1) DISCLOSURES MADE 1 YEAR OR LESS BEFORE THE EFFECTIVE FILING DATE OF THE CLAIMED INVENTION.—A disclosure made 1 year or less before the effective filing date of a claimed invention shall not be prior art to the claimed invention under subsection (a)(1) 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.

(2) DISCLOSURES APPEARING IN APPLICATIONS AND PATENTS.—A disclosure shall not be prior art to a claimed invention under subsection (a)(2) if—

(A) the subject matter disclosed was obtained directly or indirectly from the inventor or a joint inventor;

(B) the subject matter disclosed had, before such subject matter was effectively filed under subsection (a)(2), 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; or

(C) the subject matter disclosed and the claimed invention, not later than the effective filing date of the claimed invention, were owned by the same person or subject to an obligation of assignment to the same person.

New §102(b)(1) maintains a one-year grace period for applicants under some specified conditions. §102(b)(1)(A) provides that an inventor's own publication or disclosure that occurs within one year prior to the effective filing date of a claimed invention will not act as prior art under §102(a)(1) against that inventor's claimed invention. Similarly, disclosure by others during that time based on information obtained from the inventor will not constitute prior art. §102(b)(1)(B) provides that subject matter disclosed by anyone during the one-year grace period will not act as prior art if a §102(b)(1)(A)-type disclosure of the same subject matter occurred previously.

New §102(b)(2) provides exceptions as to certain U.S. patents and U.S. and PCT patent application publications that would otherwise qualify as prior art to a claimed invention under new §102(a)(2). To fall within such an exception, the subject matter disclosed must have been: (A) obtained directly or indirectly

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from the inventor or a joint inventor; (B) publicly disclosed by the inventor or a joint inventor or another who obtained the disclosed subject matter directly or indirectly from the inventor or a joint inventor before such subject matter was effectively filed under §102(a)(2); or (C) owned by the same person or subject to an obligation of assignment to the same person who owns the claimed invention not later than the effective filing date of the claimed invention.

The common ownership exception of §102(b)(2)(C) is analogous to that of former §103(c)(1), but differs in that it is no longer limited to obviousness rejections under 35 U.S.C. §103 but applies to all prior art under §102(a)(2). In addition, it is no longer limited to common ownership at the time of the invention. Common ownership is now determined as of the effective filing date of the claimed invention.

There is a notable discrepancy in §102(b)(1). As written, the exceptions in §102(b)(1) only apply to "disclosures." There remains a question whether, for example, a non-public offer for sale would qualify as a "disclosure" under §102(b)(1). Drafters of the AIA have indicated that the term "disclosure" was intended to encompass all of the types of prior art identified in §102(a)(1); however, this inconsistency will likely be addressed by the Patent Office and/or the courts in the future.

c. New §102(c)

New §102(c) states:

(c) COMMON OWNERSHIP UNDER JOINT RESEARCH AGREEMENTS.—Subject matter disclosed and a claimed invention shall be deemed to have been owned by the same person or subject to an obligation of assignment to the same person in applying the provisions of subsection (b)(2)(C) if—

(1) the subject matter disclosed was developed and the claimed invention was made by, or on behalf of, 1 or more parties to a joint research agreement that was in effect on or before the effective filing date of the claimed invention;

(2) the claimed invention was made as a result of activities undertaken within the scope of the joint research agreement; and

(3) the application for patent for the claimed invention discloses or is amended to disclose the names of the parties to the joint research agreement.

The intent of prior §103(c) to promote joint research activities is preserved in §102(c) by way of the prior art exception for subject matter invented by parties to a joint research agreement. The AIA requires that the U.S. Patent and Trademark Office administer new §102(c) in a manner consistent with the intent of prior §103(c).

As with the common ownership exception of new §102(b)(2)(C) discussed above, common ownership under a joint research agreement is no longer limited to obviousness rejections under 35 U.S.C. §103, and is no longer limited to joint research agreements that were in effect at the time of the invention, but allows for those in effect on or before the effective filing date of the claimed invention.

Pre-AIA §102(c) (directed to abandonment of the invention) is eliminated.

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d. New §102(d)

New §102(d) defines the "effectively filed" date of a patent or application that is cited as prior art to a claimed invention under new §102(a)(2):

(d) PATENTS AND PUBLISHED APPLICATIONS EFFECTIVE AS PRIOR ART.—For purposes of determining whether a patent or application for patent is prior art to a claimed invention under subsection (a)(2), such patent or application shall be considered to have been effectively filed, with respect to any subject matter described in the patent or application—

(1) if paragraph (2) does not apply, as of the actual filing date of the patent or the application for patent; or

(2) if the patent or application for patent is entitled to claim a right of priority under section 119, 365(a), or 365(b), or to claim the benefit of an earlier filing date under section 120, 121, or 365(c), based upon 1 or more prior filed applications for patent, as of the filing date of the earliest such application that describes the subject matter.

Under new §102(d), the prior art date of U.S. patents and published U.S. and PCT patent applications for the purposes of new §102(a)(2) is the filing date of the earliest U.S., PCT or foreign priority application that "describes the subject matter" (i.e., discloses the subject matter relied on for rejecting or invalidating the claim). Moreover, because there is no longer a requirement that a PCT international application be published in the English-language, U.S. patents, published U.S. patent applications based on such PCT international applications, and WIPO publications of PCT applications designating the United States can have a prior art date as of the filing date or U.S., PCT or foreign priority date of any PCT application from which they matured.

Pre-AIA §102(d) (directed to earlier patenting of the invention by the inventor in a foreign country) is eliminated.

e. Elimination of §102(f) (Inventorship)

Under pre-AIA §102(f), a third party could assert in a civil action that a patent was invalid because a named inventor did not himself/herself invent the claimed subject matter, for example, due to naming as an inventor one who was not actually an inventor, or failure to name an actual inventor. The AIA removes §102(f) from new §102. Thus, once the changes to §102 become effective, it would appear that a third party can no longer challenge the validity of a patent on the basis that the named inventor(s) did not invent the claimed subject matter, other than through the new derivation proceedings discussed below. However, other changes in the AIA appear to contradict this conclusion. For example, new §115(h)(3) states that "a patent shall not be invalid or unenforceable based upon the failure to comply with a requirement under this section *if the failure is remedied ...*" (emphasis added). However, §282 does not include failures to comply with §115 (which includes, *inter alia*, that an application name the inventor and include a declaration signed by each inventor) as a ground for invalidity. Similarly, amended §256(b) states that "The error of omitting inventors or naming persons who are not inventors shall not invalidate the patent in which such error occurred *if it can be corrected* as provided in this section" (emphasis added). These references imply

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that incorrect inventorship remains a ground for invalidity. In any case, it appears that intentional misnaming of inventors could still constitute inequitable conduct that could render a patent unenforceable.

As discussed below, derivation proceedings are available for some third parties to address inventorship disputes. However, derivation proceedings are only available under limited circumstances. Also, when a third party can establish that an alleged inventor of a prior published application or patent derived the subject matter from the third party, and the prior published application or patent was published a year or less before the third-party's application or patent, the prior published application or patent will at least not be considered prior art under new §102(b)(1)(A) or §102(b)(2)(A). A third party inventor from whom an invention was derived may also be able to rely on prior commercial use rights as a defense to infringement allegations.

f. Phase-out of §102(g)

Section 3 of the AIA eliminates pre-AIA §102(g), unless an application or patent contains or contained a claim having an effective filing date before eighteen months from the date of enactment, or is a continuing application (under §§ 120, 121, or 365(c)) of an application that contains or contained such a claim. Thus, pre-AIA §102(g) can continue to apply to applications and resulting patents filed long after the effective date of amended §102 as long as they have (or had) at least one claim with a priority date before the effective date of new §102.

By comparison, amended §102 (which eliminates §102(g)), will apply to any application or patent that contains or contained a claim having an effective filing date on or after eighteen months from the date of enactment, or is a continuing application (§§ 120, 121, or 365(c)) of an application that contains or contained such a claim. It appears that the AIA was intended to specify a different effective period for pre-AIA §102(g) to prevent an applicant or patentee (by reissue) from avoiding an interference by adding a new claim having an effective filing date on or after eighteen months from the date of enactment of the AIA, and thus triggering amended §102 for the entire application or reissue patent. However, the relevant applicability clause was drafted more broadly than this.

In particular, the different applicability standard for pre-AIA §102(g) is not limited to interferences. Thus, an unusual result stems from the fact that §102(g)(2) can be an independent basis for invalidating certain patents in litigation or post-grant review. Certain applications or patents that have some claims having an effective filing date after 18 months from enactment of the AIA and other claims having an effective filing date before the enactment of the AIA will be subject to challenge under both pre-AIA §102(g) and new §102. That is, this different effective period for pre-AIA §102(g) may have the unintended effect of allowing parties to challenge the validity of certain patents under pre-AIA §102(g)(2) even when new §102 is effective against that same patent.

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2. Amendments to §103

New 35 U.S.C §103 consists of the text formerly found in §103(a) that is amended to be consistent with a first-inventor-to-file system. Former §103(b), which was an opt-in standard for nonobviousness for certain biotechnology processes, was deleted because it is no longer needed, and former §103(c), which was added by the CREATE Act, was moved to §102(c). New §103 reads:

§103. Conditions for patentability; non-obvious subject matter

A patent for a claimed invention may not be obtained, notwithstanding that the claimed invention is not identically disclosed as set forth in section 102, if the differences between the claimed invention and the prior art are such that the claimed invention as a whole would have been obvious before the effective filing date of the claimed invention to a person having ordinary skill in the art to which the claimed invention pertains. Patentability shall not be negated by the manner in which the invention was made.

3. Recommendations

With the move to a first-inventor-to-file system, the scope of qualifying prior art to a claimed invention is expanded, and it is no longer possible to swear behind a reference under most circumstances. Thus, we recommend that, if possible, a patent application whose filing date will serve as the earliest effective filing date for a U.S. patent application be filed before the expiration of this 18-month period, to narrow the scope of potential prior art.

Applications that cannot be filed before the 18-month date and contain claims that do not have an effective filing date before the 18-month date should be filed as early as possible to obtain the earliest effective filing date. Because a U.S. provisional patent application can sometimes be prepared faster than a U.S. non-provisional patent application, if an application will be first filed in the United States, we recommend that applicants consider preparing a provisional application when obtaining the earliest possible effective filing date is important. However, to be afforded the earlier priority date of a provisional application, the claims of the non-provisional application must be fully supported and enabled by the provisional application. To ensure this, it is best to submit claims with the provisional application, and to make the provisional application as close to the desired non-provisional application as possible. Thus, in most cases, it may be more prudent and cost-effective to forgo a provisional application and file a non-provisional application.

Another option for obtaining some protection against potential prior art is publicly disclosing the invention, which would start the one-year grace period. Hence, any third-party public disclosures or patent filings occurring after one's own public disclosure would not qualify as prior art to one's claimed invention, so long as the application is filed within one year of the public disclosure and the applicant's public disclosure matches the third-party public disclosure. However, at least because public disclosure before filing precludes patent rights in many foreign countries, shares with provisional applications the above pitfalls regarding scope, and is unlikely to exactly match the later third-party disclosure, we do not recommend such a strategy.

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B. Derivation Proceedings

As part of the transition to the "first-inventor-to-file" system established by the AIA, interference proceedings will eventually and gradually be eliminated. In an effort to provide relief to injured parties in situations in which one patent applicant derives an invention from another inventor and is the first to file a patent application "without authorization," 35 U.S.C. §§ 291 and 135, which formerly related to interference practice, have been amended to establish "derivation" proceedings in which the later-filing party may attempt to prove such derivation. Amended §291 applies in situations in which each party has obtained a patent, and amended §135 applies in situations in which the later-filing party has a pending application and the earlier-filing party has a pending application or an issued patent.

Parties who have neither an issued patent related to the disputed invention nor a pending application cannot use derivation proceedings and will have to rely on new §102 or the prior commercial use defense, or possibly on an unenforceability defense based on inequitable conduct in falsely naming an inventive entity, in situations in which they believe a patentee has misappropriated their invention.

Many ambiguities remain in the language of the derivation proceeding sections of the AIA. We hope that they will be clarified by early legislative correction, Patent Office rulemaking, or case law.

Effective Date and Applicability: The changes to §§ 291 and 135 take effect 18 months from the date of enactment of the AIA, and the subject derivation proceedings will be available with respect to any application or patent that contains or contained at any time a claim having an effective filing date on or after eighteen months from the date of enactment, or that is a continuing application (under §§ 120, 121, or 365(c)) or patent of an application that contains or at any time contained such a claim.

For all patents and applications that contain or at any time contained a claim having an effective filing date before eighteen months from the date of enactment, or that is a continuing application (§§ 120, 121, or 365(c)) or patent of an application that contains or contained at any time such a claim, interference practice (under pre-AIA 35 U.S.C. §§ 102(g), 135 and 291) is still available.

Thus, interferences may be declared for years to come in applications in which, or in a parent of which, claims with effective filing dates earlier than eighteen months after the date of enactment have ever been filed. CIP applications and their continuing applications (and patents issuing therefrom) that ever contain both (a) a claim with an effective filing date before the effective date, and (b) a claim with an effective filing date on or after the effective date, are eligible for both types of proceedings.

The Act does not explicitly state what proceedings would be available in a situation in which one party's application only has an effective filing date and/or priority claim on or after the effective date of this section of the Act, and another party's application only has an effective filing date and/or priority claim earlier than the effective date of this section of the Act. Presumably, in this case, the earlier party could seek declaration of an interference, and the later party could petition for derivation proceedings to be

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instituted. In theory, both types of proceedings could be instituted and proceed simultaneously. However, it is likely that, in such a situation, the Patent Office would simply proceed with the interference and address any derivation issues in it. This ambiguity may be resolved by regulation.

1. Patent vs. Patent

Amended §291 allows a patent owner to file a civil action against the owner of another patent ("the earlier-filed patent") that (a) has an earlier effective filing date and (b) claims the same invention, if the invention claimed in the earlier-filed patent was derived from the patent owner who filed the action. The action must also "nam[e] an individual alleged to have derived such invention as the inventor or joint inventor."

Such an action can be filed "only before the end of the 1-year period beginning on the date of the issuance of the first patent containing a claim to the allegedly derived invention."

There is no requirement that the earlier-filed patent issued before the later-filed patent. Thus, the owner of the earlier-issued patent could bring the action, if the earlier-issued patent had the later effective filing date.

2. Application vs. Patent Or Application

a. Requirements For Petition

A patent applicant ("later applicant") may file a petition to institute a derivation proceeding in the Patent Office, in an effort to have an earlier applicant's claims refused or canceled. Requirements for such a petition are as follows:

- The petition must be filed by the later applicant;
- The petition must be made under oath;
- The petition must be supported by substantial evidence that an inventor named in the earlier application derived the claimed invention from an inventor of the later application and that, without authorization, the earlier application was filed; and
- The petition must be filed 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."

In context, the "within one year of the first publication" requirement appears to refer to the first publication of the claim of the earlier application, but may not be so-limited. There is no requirement that the "publication" be simultaneous with publication of an application or issuance of a patent. Thus, it appears that the date of publication of a claim may be the date it was published by way of an Image File Wrapper (IFW) entry in the Patent Office's public PAIR database. As another example, publication of the claim may have occurred in a PCT application designating the United States, prior to entry into the U.S.

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National Phase or publication in English. This should be clarified in an upcoming Patent Office rulemaking.

The AIA appears to create an inequity as to non-publication of applications. If an application is first filed in the United States, and no corresponding foreign applications are to be filed, the applicant may file a Request for Non-Publication of the application. In this case, the application is kept secret by the Patent Office until it issues as a patent. Under the Act, it appears that the following scenario is possible: Party A files an application with a request for non-publication, and claims subject matter derived from Party B. Party B files later, and B's application or patent, with a claim to the subject matter derived by A, is published. This would appear to trigger the one-year period of §135. But B still has no knowledge of A's application, or any way of identifying it. A's patent issues more than one year after B's publication of the relevant claim. At this point, B can have no relief under either §135 or §291.

There is no requirement that the claim remain in the same form that it was first published, or that the claim be patentable. Nor is there any requirement that the petitioner have a corresponding claim in the petitioner's application.

The "substantial evidence" requirement will likely be construed to require, at a minimum, that the later applicant submit evidence that *prima facie* establishes (i) the existence of invention-related communication between at least one inventor of the earlier application and at least one inventor of the later application, or (ii) that the earlier inventor had access to the work of the later inventor.⁶

If the Director determines that the petition "demonstrates that the standards for instituting a derivation proceeding are met," the Director "may" institute a derivation proceeding. Thus, the Patent Office is not required to institute a derivation proceeding even if the above requirements are met by the petitioner, as long as the Patent Office does not act arbitrarily or capriciously. For example, the Patent Office might decline to initiate a derivation proceeding if the petitioner has no claims corresponding to the allegedly derived claims. The Director's determination of whether or not to initiate a derivation proceeding is final and non-appealable, but could be attacked by way of a *mandamus* proceeding in the U.S. District Court for the Eastern District of Virginia.

b. Action By Board

If derivation proceedings are instituted by the Director, the case proceeds to the Patent Trial and Appeal Board ("the Board"). The Board's inquiry focuses exclusively on "whether an inventor in the earlier application derived the claimed invention from an inventor named in the petitioner's application and, without authorization, the earlier application claiming such invention was filed."

⁶ One criticism of the AIA in relation to §135 has been that the AIA does not provide a discovery mechanism for the later applicant, who bears the burden of proof of derivation, to gain access to materials of the alleged deriver. (It appears that standard discovery mechanisms will be available in civil actions under §291. They may be available by regulation in §135 derivation proceedings, but are not likely to be available before the initial petition is filed and decided.)

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If the Board's final decision is adverse to any patent or application claim, then the claim is refused (if in an application) or canceled (if in a patent). However, "in appropriate circumstances," the Board may correct the inventorship in any application or patent at issue. The AIA does not specify what circumstances would be "appropriate."

c. Deferral Of Action By Board

The Board can defer action on a petition for a derivation proceeding "until the expiration of the 3-month period beginning on the date on which the Director issues a patent that includes the claimed invention that is the subject of the petition." This would allow time for the Patent Office to avoid acting on petitions directed to claims that are not patentable, and thus that will not be in an issued patent. In addition, the earlier applicant apparently could avoid the derivation proceeding by amending his or her claims to be out of the scope of the petition. It is not clear whether the petitioner could amend the petition to cover the earlier applicant's amended claims in this case, but at a minimum it seems that a new petition could be filed (provided that the other requirements, including the one-year requirement, were still met).

d. Settlement and Arbitration

Parties to a derivation proceeding may terminate the proceeding by filing a written statement reflecting the agreement of the parties as to the correct inventors of the claimed invention in dispute. If requested by either party, the agreement or understanding shall be treated as business confidential information, and made available only to Government agencies or "to any person on a showing of good cause." The parties may also agree to have the contest determined by arbitration rather than by the Board.

e. Appeal

Final judgments of the PTAB in derivation proceedings may be challenged in two ways. They may be challenged in a *de novo* civil action in the U.S. District Court for the Eastern District of Virginia or, in some circumstances, in another district court. Alternatively, they may be appealed directly to the Federal Circuit.

C. Changes to Declaration Practice

Section 4 of the AIA amends 35 U.S.C. §115, changing the language required to be present in a Declaration, and changing the requirements when one or more inventors cannot or will not execute a Declaration. The amendments to §115 allow assignees to provide a statement in lieu of an inventor Declaration under certain circumstances.

Currently, when one or more inventors cannot or will not execute a Declaration, a petition must be filed explaining, in detail, the circumstances surrounding the non-signing inventor's unavailability or refusal to sign the Declaration, and include the non-signing inventor's last known address. Section 4 removes the requirement for such a petition when the inventor is (1) unable to execute a Declaration

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because the inventor is dead, legally incapacitated, or cannot be found or reached after diligent effort, or (2) under an obligation to assign the invention to the assignee and has refused to execute a Declaration. If either of the circumstances (1) or (2) is met, the assignee can provide a statement in lieu of the non-signing inventor's Declaration.

The statement must identify the non-signing inventor and set forth the circumstances representing the basis for filing the statement. Any additional information that will be required will be set by regulation. In view of the purpose of section 4, the additional information should be less burdensome than the currently required petition.

This provision will make it much easier for companies to satisfy the Declaration requirement for applications when an inventor is (1) unable or cannot be found to execute a Declaration, or (2) under an obligation to assign the invention to the assignee and refuses to execute a Declaration.

Section 4 of the AIA also amends §115 to (1) remove the requirement that a Declaration identify an inventor's citizenship, (2) change the language required to be present in a Declaration, (3) allow for a combined Declaration and Assignment and (4) require that a Declaration be filed before a Notice of Allowance is issued. In a related change, section 20 of the AIA indicates that a statement of lack of deceptive intent by the subject inventor is no longer required when an inventor needs to be added or removed from an application due to an error.

Section 4 of the AIA also broadens §118 to allow an assignee or party to whom the inventor is obligated to assign to apply for a patent. Broadened §118 also allows a party who otherwise shows sufficient proprietary interest in the matter to apply for the patent on behalf of and as an agent of the inventor on proof of the pertinent facts and a showing that such action is appropriate to preserve the rights of the parties. When a patent is granted on an application filed by a party other than the inventor, the patent will issue in the name of the actual owner of the patent upon sufficient notice to the inventor. Amended §118 is substantially broader than prior §118, which only allowed for a party other than an inventor to apply for a patent when "an inventor refuses to execute an application for patent, or cannot be found or reached after diligent effort." Broadened §118 does not change the inventor Declaration requirements of §115.

Effective Date and Applicability: The changes to §§ 115 and 118 will take effect one year after enactment of the AIA and will apply to any application filed on or after the effective date. Thus, due to the changed requirements for a Declaration, it appears that new Declarations will be needed in most continuation or divisional applications that are based on an application filed before September 16, 2012.

D. Pre-Issuance Third-Party Submissions

Section 8 of the AIA adds 35 U.S.C. §122(e) that allows third parties to submit patents and/or printed publications for consideration by the examiner during the prosecution of a patent application. Under the new provision, a pre-issuance third-party submission must be filed before the earlier of:

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- (1) The issuance of a Notice of Allowance; or
- (2) The later of:
 - (a) Six months after publication of the application; or
 - (b) The date of the first rejection of any claim in the application.

The pre-issuance third-party submission must include a concise description of the relevance of the asserted information and a fee (the amount of which will be set by regulation).

Third-party submissions were previously available in pending patent applications in two forms: (1) third-party submissions under 37 C.F.R. §1.99 or (2) protests under 37 C.F.R. §1.291. This new procedure differs from previous third-party submissions under 37 C.F.R. §1.99 because (1) it requires third parties to provide a concise description of the relevance of the submitted patents and/or printed publications, while previous third-party submissions under 37 C.F.R. §1.99 did not permit any description of relevance, and (2) it broadens the window of opportunity for submitting prior art. This new procedure differs from protests under 37 C.F.R. §1.291 because the new pre-issuance third-party submissions can be filed after publication and are limited to submission of patents and/or printed publications. Protests must be filed before publication, but can rely on any information, not just patents and/or printed publications. It is unclear whether the Patent Office will maintain or modify third-party submissions under 37 C.F.R. §1.99 or protests under 37 C.F.R. §1.291 in view of this new procedure.

We generally do not recommend filing third-party submissions during prosecution in any form, including the new pre-issuance third-party submissions, except under very limited circumstances. In most cases, due to the limited participation of the third party, the patentee will have an opportunity to present un rebutted arguments and/or amend the claims to avoid the submitted information (including conducting personal interviews with the Examiner) while still trying to cover the third party's product or method. Furthermore, by submitting the information during prosecution with a description of its relevance, it is almost certain that the information could not subsequently be effective in an *ex parte* reexamination, *inter partes* reexamination, post-grant review, or *inter partes* review, and will have limited effectiveness in subsequent litigation, because it will have already been considered by the examiner for the reasons identified by the third party.

Effective Date and Applicability: The changes relating to pre-issuance third-party submissions will take effect one year after enactment of the AIA and will apply to any application filed before, on, or after the effective date.

E. Supplemental Examination

Section 12 of the AIA adds 35 U.S.C. §257 that allows a patent owner to request "supplemental examination" to consider, reconsider, or correct any information believed to be relevant to the patent, and

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thereby preclude an accused infringer from asserting a defense of inequitable conduct based on that information in a later infringement action.

Within three months after a request for supplemental examination is filed, the Patent Office must issue a decision indicating whether the submitted information raises a substantial new question of patentability (SNQ). If the information does not raise an SNQ, the supplemental examination will end. If the submitted information is determined to raise an SNQ, then the Patent Office will institute an *ex parte* reexamination based on the information. The patent owner will have to pay a supplemental examination fee (to be set by the Patent Office) with the request for supplemental examination, and will also have to pay the *ex parte* reexamination fee if reexamination is ordered.

Supplemental examination offers protection to the patent owner against a court later holding the patent unenforceable for inequitable conduct based on information considered during the supplemental examination. In particular, section 12 provides that "[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 a prior examination of the patent if the information was considered, reconsidered, or corrected during a supplemental examination of the patent." Section 12 also provides that a patent owner's decision of whether or not to request supplemental examination shall not be relevant to enforceability of the patent.

Supplemental examination cannot be used to correct a material fraud that occurred during original prosecution. According to section 12, if the Patent Office becomes aware, during the course of a supplemental examination or reexamination proceeding ordered pursuant to supplemental examination, that a material fraud may have been committed, the Patent Office may take any action, including canceling claims, and will refer the matter to the Attorney General for further appropriate action (*e.g.*, criminal charges and/or disciplinary charges against a patent practitioner). Thus, a patentee cannot intentionally withhold material information during prosecution to obtain the patent and then use supplemental examination to have the material considered just prior to enforcement of the patent.

Supplemental examination will not provide protection against a court holding the patent unenforceable if:

- (1) an opposing party particularly pleads an allegation of unenforceability in a civil action or ANDA paragraph iv filing before the date on which a request for supplemental examination is made, or
- (2) an accused infringer raises the defense of unenforceability in an ITC or district court action filed before supplemental examination, including reexamination if ordered, is concluded.

Thus, a supplemental examination cannot be used to retroactively defeat an allegation of inequitable conduct.

Unless the material being submitted is of little relevance to the claimed invention (*i.e.*, very unlikely to raise an SNQ), we recommend using substantial care in deciding whether to use supplemental

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examination to have information considered after a patent is granted. This is because of the risk that the Patent Office will institute an *ex parte* reexamination of the patent. *Ex parte* reexamination will immediately limit the enforceability of the patent and could result in the claims of the patent being narrowed or even canceled. When information could even possibly raise an SNQ, we recommend first considering less risky mechanisms to have the information considered by the Patent Office (e.g., reissue).

Effective Date and Applicability: Supplemental examination will be available one year after enactment of the AIA and will apply to any patent issued before, on, or after that date.

F. The "Patent Trial and Appeal Board"

Section 7 of the AIA reorganizes the current Board of Patent Appeals and Interferences (BPAI) into the "Patent Trial and Appeal Board" (PTAB). The PTAB will take over the current duties of the BPAI with respect to (1) reviewing adverse decisions of examiners in the prosecution of patent and reissue applications, (2) conducting the appeals of reexaminations, and (3) conducting or concluding interferences. Additionally, the PTAB will take on the new duties of (4) conducting derivation proceedings, (5) conducting post-grant reviews, and (6) conducting *inter partes* reviews. Each of the duties (1) - (6) will be conducted before a three-member panel of members of the PTAB.

Effective Date: The PTAB will replace the current BPAI one year after enactment of the AIA.

G. Post-Grant Review

Section 6 of the AIA adds new 35 U.S.C. §§ 321-329 that establish a new procedure for challenging the validity of granted patents before the Patent Office. Within nine months after the grant of a patent or issuance of a reissue patent, a third party can petition to cancel one or more claims of the patent by requesting post-grant review. This procedure is more akin to a European opposition proceeding than anything that was available in the Patent Office before the AIA.

Effective Date and Applicability: Post-grant review will be available one year after the enactment of the AIA, for any patent (1)(a) that is subject to the "First-Inventor-to-File" provisions (i.e., contains or contained at any time a claim having an effective filing date on or after March 16, 2013, or having a specific reference under §§ 120, 121, or 365(c) (i.e., a claim to continuation, divisional or continuation-in-part (CIP) status) to an application that contains or at any time contained such a claim), and (b) that has been granted or reissued for nine months or less; or (2) that is subject to the Transitional Post-Grant Review for Business Method Patents, discussed below.

Below, we discuss the important aspects of this new procedure as compared to pre-AIA *inter partes* reexamination.

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1. Conducted Before the Patent Trial and Appeal Board

Post-grant review will be conducted entirely before a panel of three judges of the PTAB. This is a substantial change from *inter partes* reexamination, in which the prosecution phase of an *inter partes* reexamination was conducted by an examiner of the "Central Reexamination Unit" (CRU), and only the appeal phase was handled by the BPAI.

2. Patents Can be Challenged Based on Any Issue of Patentability

Post-grant review allows for a patent to be challenged based on any issue of patentability set forth in 35 U.S.C. §282(b) paragraphs (2) and (3), except failure to disclose best mode. 35 U.S.C. §282(b) paragraph (2) states that a patent or any claim can be invalidated on any ground specified in part II of 35 U.S.C. as a condition of patentability (e.g., §§ 101, 102, and 103), and paragraph (3) states that a patent or any claim can be invalidated for failure to comply with §§ 112 or 251.

Thus, post-grant review allows for patents to be challenged before the Patent Office on grounds that were previously available only in courts or the International Trade Commission (ITC). In *inter partes* and *ex parte* reexamination, third parties could only challenge patents based on prior art patents and printed publications applied under 35 U.S.C. §§ 102 and 103. In post-grant review, patents can now be challenged, for example, for failure to comply with any aspect of §§ 102 and 103 (e.g., public use, offers for sale), §101 (statutory subject matter, utility), §112 (e.g., written description, enablement, indefiniteness, improper dependency, but excluding best mode), and/or §251 (e.g., improper recapture in a reissue patent). Thus, any basis for asserting that a patent is invalid in court is available during post-grant review.

3. Threshold Standard for Granting Post-Grant Review

The threshold standard for granting the petition will be that the information presented in the petition, if not rebutted, would demonstrate that it is "more likely than not" that at least 1 of the claims challenged ... is unpatentable." This standard is similar to the interim standard for *inter partes* reexamination and the standard for *inter partes* review, but replaces "reasonable likelihood" with "more likely than not."

Generally, the phrase "more likely than not" means that there is better than a 50% chance. In other contexts, courts have held that a "reasonable likelihood" could be established by less than a 50% chance. Regardless, for reasons similar to those discussed above with respect to the interim standard for *inter partes* reexamination, this standard will be more difficult to meet than the SNQ standard.

Alternatively, a post-grant review may be granted based on a showing that the requesting petition "raises a novel or unsettled legal question that is important to other patents or patent applications." It remains to be seen what types of legal questions will satisfy this requirement.

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4. Basic Procedure and Timing

a. Petition

A petition for post-grant review must be filed within nine months after the grant or reissuance of a patent to be challenged. Thus, parties that may wish to use this new procedure will need to closely monitor their competitors' pending patent applications and reissue applications to be aware of the grant or reissuance of any patent that they might wish to challenge. Such monitoring should begin within the next three months.

b. Patent Owner Preliminary Statement

Once a petition requesting post-grant review is filed, the patent owner has the right to file a preliminary statement responding to the petition setting forth "reasons why no post-grant review should be initiated based on the failure of the petition to meet any requirements of [post-grant review]." The time period for filing this statement will be set by regulation.

c. Decision Granting or Denying Request

The PTAB must issue a decision granting or denying the petition within (1) three months of the patent owner's preliminary statement, or (2) if no preliminary statement is filed, within three months of the last date on which the preliminary statement could have been filed. Notice of this decision will be made available to the public and will include the date on which the post-grant review will commence. The Patent Office determination whether or not to institute a post-grant review is final and nonappealable.

d. Patentee Response/Amendment

After the PTAB has granted a request for post-grant review, the patentee will be given an opportunity to respond to the requester's petition. The response must include any affidavits, declarations, additional factual evidence, or expert opinions, upon which the patentee's response relies. The patentee will also be permitted to narrow the claims once by amendment. No broadening of claims is permitted. The time period for filing this response will be set by regulation. However, given the one-year time limit until final decision (discussed below), the time period for the patentee's response/amendment will likely be short (1-2 months), and will likely not be extendible as a matter of right.

The patentee may be able to amend the claims a second or subsequent time if the amendment is jointly agreed to by the patentee and petitioner, or if the patentee can show good cause for the additional amendment.

e. Petitioner Comment

After the patentee's response/amendment, the petitioner will be given an opportunity to comment on the patentee's response/amendment (and likely anything adverse to the petitioner in the decision granting the petition). Although not addressed in the AIA, the petitioner's comments may be permitted to include

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additional affidavits, declarations, additional factual evidence, or expert opinions that are responsive to issues raised in the patentee's response/amendment. The time period for filing these comments will be set by regulation. However, given the one-year time limit until final decision, the time period for filing petitioner comments will likely be short (1-2 months), and will likely not be extendible as a matter of right.

f. Oral Hearing

Both the patentee and petitioner will be entitled to an oral hearing before the panel of the PTAB before the panel issues its final decision.

g. Final Decision

The AIA states that a final decision in the post grant-review will be issued within one year from the date on which the Patent Office provides notice of the institution of the post-grant review. The time limit may be extended an additional six months by the Patent Office for good cause shown. Based on the BPAI's current backlog of patent and reexamination appeals, it seems unlikely that the current PTAB would be able to meet this statutory deadline without hiring additional judges or causing a further increase in the backlog of appeals. Either the patentee or petitioner can appeal the panel's Final Decision to the Federal Circuit.

5. Evidentiary Standard is Preponderance of the Evidence

Similar to both *inter partes* and *ex parte* reexamination, the evidentiary standard or "burden of proof" necessary to establish that a claim is unpatentable is a "preponderance of the evidence." This is a lower standard than the "clear and convincing evidence" standard required to prove a patent claim invalid in a civil action.

6. Request Must Identify the Real Party in Interest

Similar to *inter partes* reexamination, a request for post-grant review must identify the real party in interest. Thus, a party may not anonymously file a petition for post-grant review.

7. Limited Discovery Available

Post-grant review will allow for limited discovery of relevant evidence "directly related to factual assertions advanced by either party." The standards and procedures for such discovery will be established by regulation. Protective orders and motions to seal will be available for parties to protect confidential information from becoming public.

8. Barred by Declaratory Judgment Action

Post-grant review will be barred if the petitioner (or real party in interest) filed a civil action challenging the validity of one or more claims of the patent before the filing of the petition for post-grant review. However, a counterclaim asserted by the petitioner (or real party in interest) challenging the

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validity of one or more claims of the patent in a pending civil action will not bar a post-grant review, even if the counterclaim is asserted before the filing of the petition for post-grant review.

9. Barred for Original Claims of Reissue Patents

Post-grant review is available for reissue patents. That is, a petition can be filed within nine months from the date that the patent is reissued. However, the petition cannot address claims that are the same scope as or narrower than the claims of the original patent unless the nine-month period for filing a petition for post-grant review of the original patent has not yet expired. Thus, if a reissue application is filed shortly after the grant of a patent for which a party wishes to request post-grant review, the third party should not wait for the patent to reissue before filing the petition for post-grant review of the already-issued patent. Otherwise, the third party may not be able to petition for post-grant review of any claims that were narrowed or are of the same scope as claims of the original patent.

10. Cannot be the Basis for Stay of a Motion for Preliminary Injunction Against Infringement if a Civil Action is Filed Within Three Months of the Patent Grant

If a civil action alleging infringement of a patent is filed within three months after the date on which the patent is granted, the court cannot stay its consideration of a patentee's motion for a preliminary injunction against infringement on the basis that a petition for post-grant review has been filed or post-grant review has been instituted. This is even the case if the petition for post-grant review was filed before the civil action or before the motion for a preliminary injunction was filed. Thus, patentees who are considering filing a civil action for patent infringement and wish to obtain a preliminary injunction against infringement should consider filing the civil action within three months after the patent's grant.

11. Automatic Stay

If a petitioner (or real party in interest) files a civil action challenging the validity of a patent on or after the date of filing a petition for post-grant review of the same patent, the civil action will be automatically stayed until (a) the patentee moves the court to lift the stay, (b) the patentee files a civil action or counterclaim alleging that the real party in interest has infringed the patent, or (c) the petitioner or real party in interest moves the court to dismiss the civil action. Of course, the court may choose to maintain the stay of a civil action even if the patentee moves the court to lift the stay or files a civil action or counterclaim alleging infringement of the patent.

In *inter partes* reexamination, the decision to stay a civil action is always within the discretion of the court. When post-grant review is used, the patentee has some control over whether a subsequent civil action filed by the petitioner (or real party in interest) will be automatically stayed as a result of the petition for post-grant review.

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12. Settlement is Possible

One of the disadvantages of *inter partes* reexamination was that it was very difficult, if not impossible, to stop an *inter partes* reexamination once it was granted. A post-grant review can be terminated upon agreement of the parties as long as the panel of the PTAB has not issued a Final Decision. If the post-grant review is terminated prior to the Final Decision of the panel, the petitioner will not be subject to the statutory estoppel provisions of post-grant review, discussed below.

13. Intervening Rights

In the same manner as reexamination, any claims that have been amended or newly added during a post-grant review proceeding will be subject to intervening rights.

14. Statutory Estoppels

In much the same manner as *inter partes* reexamination, statutory estoppels apply to the real party in interest and those in privity with it following issuance of a final written decision in a post-grant review that has been instituted and not dismissed. A real party in interest or privy cannot challenge the same patent in a proceeding before the Patent Office, in a civil action, or in a proceeding before the ITC "on any ground that the petitioner raised or could have reasonably raised" during the post-grant review. This standard is not as severe as the current statutory estoppel provision of *inter partes* reexamination ("raised or could have raised").

This new standard would apparently permit some ground of challenge being raised in a subsequent proceeding that could have conceivably been raised, but which could not have "reasonably" been raised. The scope and extent of what could not have been "reasonably" raised will be left to the courts to determine.

Because patents can be challenged based on virtually any grounds for unpatentability, the scope of arguments or information that one "could have reasonably raised" during the post-grant review is much larger than, for example, those that could have been raised in *inter partes* reexamination or *inter partes* review.

15. Recommendations

In addition to our above recommendations regarding post-grant review, we recommend that companies more closely monitor the grant of U.S. patents to their competitors. Also, because of the relatively short nine-month window for filing a petition for post-grant review, patentees should be prepared to face early challenges to their patents.

When a third party becomes aware of a patent within nine months of its grant, post-grant review has cost, time, and procedural benefits that warrant consideration of whether to use post-grant review.

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However, any perceived benefit should be carefully weighed against the statutory estoppels, procedural and discovery limitations, and possibility that one or more claims of the competitor's patent that cover an accused product or method may survive post-grant review. Thus, much like current *inter partes* reexamination, the decision to petition for post-grant review should be made on a case-by-case basis, carefully considering the particular circumstances.

H. Transitional Post-Grant Review for Business Method Patents

Section 18 of the AIA establishes a transitional program for post-grant review of certain business method patents. This program allows parties who have been sued for or otherwise charged with infringement of a covered business method patent to petition for post-grant review of that patent even if post-grant review would not have otherwise been available because the patent had been granted for more than nine months. The program will generally correspond to post-grant review as discussed above, with the following exceptions.

Effective Date and Applicability: The transitional program will become effective September 16, 2012, and applies to any covered business method patent issued before, on, or after the effective date unless the patent is otherwise eligible for post-grant review. The program will end eight years after the rules implementing the transitional program take effect (most likely one year after enactment of the AIA), but will continue to apply to any petition filed under the program on or before the ending date.

1. Accused Infringement of a Covered Business Method Patent

To qualify for the transitional program, a petitioner, the real party in interest, or privy must have been sued for or otherwise charged with infringement of a patent "that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service," except for patents for "technological inventions." What constitutes being "charged with" infringement will be subject to interpretation, but might be construed to encompass a threat of the type on which declaratory judgment jurisdiction is presently based. The scope of what falls within the category of "technological inventions" is unclear and will be defined by regulation and/or the courts. Additionally, while the AIA does not define "corresponding apparatus," at this time it is reasonable to assume that "corresponding apparatus" at least includes apparatus that perform a covered business method and storage media storing computer programs that perform a covered business method.

2. Eligibility for Review

Unlike regular post-grant review, a petition for post-grant review under this program can be filed at any time after the patent is issued, as long as the patent is not eligible for regular post-grant review and the petitioner has been sued for or charged with infringement of the patent. Thus, for example, a covered business method patent can be subject to review under this program if it has been granted for more than nine months, or if the petition is for post-grant review of a non-broadened claim in a reissue patent.

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3. Limitation on the Bases for Asserting Unpatentability

The bases for asserting unpatentability are the same as with regular post-grant review (i.e., §§ 101, 102, 103, 112 (other than best mode), and 251). However, according to this transitional program, when the petition challenges a claim based on pre-AIA §§ 102 or 103 (i.e., not the §§ 102 or 103 as amended by the AIA), such a challenge can only be based on prior art that:

(1) qualifies as prior art under pre-AIA §102(a); or

(2) is art that: (a) disclosed the invention more than one year before the patent's U.S. filing date, and (b) would qualify as pre-AIA §102(a) prior art, if such disclosure had been made by another before the invention thereof by the applicant for patent (i.e., was publicly known or used in the United States, or described in a patent or printed publication anywhere).

Thus, sales or offers for sale within the United States, which would have been prior art under pre-AIA §102(b), cannot be used to challenge a claim of a covered business method patent under this transitional program. Further, a claim of a covered business method patent cannot be challenged under this transitional program under pre-AIA §§ 102(d), (e), or (g).

4. Estoppels

The statutory estoppel provisions of regular post-grant review relating to subsequent Patent Office proceedings apply to this transitional program. Thus, as discussed above, a real party in interest or privy cannot challenge the same patent in a proceeding before the Patent Office or in a civil action "on any ground that the petitioner raised or could have reasonably raised" during a prior post-grant review.

The statutory estoppel provisions of regular post-grant review relating to civil actions do not apply to this transitional program. Instead, a more limited estoppel applies. In the transitional program, a real party in interest or privy cannot challenge the same patent in a civil action or in a proceeding before the ITC, based on a ground previously raised during the transitional post-grant-review. However, this estoppel provision does not bar challenging the same patent in a civil action or the ITC on grounds that reasonably could have been raised during the transitional post-grant review. Thus, the statutory estoppels relating to civil actions and ITC proceedings are much less severe than in a normal post-grant review.

5. Stay of Corresponding Litigation

Unless a civil action brought by the petitioner on or after the date of filing of the transitional post-grant review has been automatically stayed, the AIA requires that a court determine whether to grant a stay of a civil litigation pending the outcome of a transitional post-grant review based on a four-factor balancing test:

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- (1) whether a stay, or the denial thereof, will simplify the issues in question and streamline the trial;
- (2) whether discovery is complete and whether a trial date has been set;
- (3) whether a stay, or the denial thereof, would unduly prejudice the nonmoving party or present a clear tactical advantage for the moving party; and
- (4) whether a stay, or the denial thereof, will reduce the burden of litigation on the parties and on the court.

Either party to the civil proceeding can request immediate interlocutory review of the district court's decision on whether to grant the stay.

6. Post-Grant Review of Any Claim of a Reissue Patent

As discussed, a regular post-grant review of a reissue patent cannot address claims that are the same scope as or narrower than the claims of the original patent unless the nine-month period for filing a petition for post-grant review of the original patent has not yet expired. In a transitional post-grant review, all claims of a reissue patent may be challenged.

7. Recommendations

For parties that are accused of infringing a covered business method patent, this transitional program has the potential to provide a cost effective mechanism for challenging the validity of the patent, particularly under §101. This is especially the case because the statutory estoppel provisions of this transitional program will only bar raising in a subsequent civil action the grounds of unpatentability that were actually raised during the post-grant review.

Of course, as with all types of *inter partes* proceedings before the Patent Office, any perceived benefits should be carefully weighed against the statutory estoppels and possibility that one or more claims of the competitor's patent that cover an accused product or method may survive post-grant review. Thus, the decision to petition for transitional post-grant review should be made on a case-by-case basis, carefully considering the particular circumstances.

I. Inter Partes Review

Section 6 of the AIA amends 35 U.S.C. §§ 311-319 to replace *inter partes* reexamination with *inter partes* review. If it is more than nine months after the grant of a patent or issuance of a reissue patent, and the patent or reissued patent is not undergoing post-grant review, a third party can challenge the validity of

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the patent by requesting *inter partes* review. So, in effect, *inter partes* review takes the place of post-grant review after the patent has been granted for nine months.⁷

Effective Date and Applicability: *Inter partes* review will be available one year after the enactment of the AIA for any patents that have been granted for more than nine months.

Below, we discuss important aspects of this new procedure as compared to pre-AIA *inter partes* reexamination and the above-discussed post-grant review.

1. Conducted Before the Patent Trial and Appeal Board

Like post-grant review, *inter partes* review will be conducted entirely before a panel of three judges of the PTAB. This is a substantial change from *inter partes* reexamination, in which the prosecution phase of an *inter partes* reexamination was conducted by an examiner of the "Central Reexamination Unit" (CRU), and only the appeal phase was handled by the BPAI.

2. Patents Can Only be Challenged Based on Prior Art Patents and Printed Publications under 35 U.S.C. §§ 102 and 103

In *inter partes* review, patents can only be challenged based on prior art patents and printed publications under 35 U.S.C. §§ 102 and 103. This is one of the primary differences between *inter partes* review and post-grant review.

3. Threshold Standard for Granting *Inter Partes* Review

The threshold standard for granting a petition for *inter partes* review will be the same as the interim standard for *inter partes* reexamination, i.e., "a reasonable likelihood that the petitioner would prevail with respect to at least one of the claims challenged in the petition."

As discussed above, this standard will be more difficult to meet than the SNQ standard, and permits the PTAB to consider any rebuttal evidence presented by the patentee when deciding whether the standard has been met.

4. Basic Procedure and Timing

a. Petition

A petition for *inter partes* review must be filed more than nine months after the grant or reissuance of the patent to be challenged. If the patent is currently the subject of a post-grant review, the petition for *inter partes* review cannot be filed until the post-grant review has ended.

⁷ Subject to the exception for certain business method patents discussed above.

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b. Patent Owner Preliminary Statement

Once a petition for *inter partes* review is filed, the patent owner has the right to file a preliminary statement setting forth "reasons why no *inter partes* review should be initiated based on the failure of the petition to meet any of the requirements of [*inter partes* review]." The time period for filing this statement will be set by regulation. This statement will likely enhance the severity of the "reasonable likelihood" because it will give the patentee an opportunity to argue that the standard has not been met before the PTAB decides whether the standard has been met. Previously, in *inter partes* reexamination, the decision of whether the SNQ standard had been met was made without patentee comment.

c. Decision Granting or Denying Request

Like post-grant review, the PTAB must issue a decision granting or denying the petition within (1) three months of the patent owner's preliminary statement, or (2) if no preliminary statement is filed, within three months of the last date on which the preliminary statement could have been filed. Notice of this decision will be made available to the public and will include the date on which any *inter partes* review will commence. The Patent Office determination whether or not to institute *inter partes* review is final and nonappealable.

d. Patentee Response/Amendment

After the PTAB has granted a petition for *inter partes* review, the patentee will be given an opportunity to respond to the petitioner's petition. The response must include any affidavits, declarations, additional factual evidence, or expert opinions, upon which the patentee's response relies. The patentee will also be permitted to narrow the claims once by amendment. No broadening of claims is permitted. The time period for filing this response will be set by regulation. However, given the one-year time limit until final decision (discussed below), the time period for the patentee's response/amendment will likely be short (1-2 months), and will likely not be extendible as a matter of right.

The patentee may be able to amend the claims a second or subsequent time if the amendment is jointly agreed to by the patentee and petitioner. Unlike post-grant review, the AIA does not allow for additional amendments in an *inter partes* review on the basis that the patentee could show good cause for the additional amendment.

e. Petitioner Comment

After the patentee's response/amendment, the petitioner will be given an opportunity to comment on the patentee's response/amendment (and likely anything adverse to the petitioner in the decision granting the petition). Although not addressed in the AIA, the petitioner's comment may be permitted to include additional affidavits, declarations, additional factual evidence, or expert opinions that are responsive to issues raised in the patentee's response/amendment. The time period for filing these comments will be set by regulation. However, given the one-year time limit until final decision, the time period for filing petitioner comments will likely be short (1-2 months), and will likely not be extendible as a matter of right.

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f. Oral Hearing

Both the patentee and petitioner will be entitled to an oral hearing before the panel of the PTAB before the panel issues its final decision.

g. Final Decision

The AIA states that a final decision in the *inter partes* review will be issued within one year from the date on which the Patent Office provides notice of the institution of the *inter partes* review. The time limit may be extended an additional six months by the Patent Office only for good cause. Based on the BPAI's current backlog of patent and reexamination appeals, it seems unlikely that the current PTAB would be able to meet this statutory deadline without hiring additional judges or causing a further increase in the backlog of appeals. Either the patentee or petitioner can appeal the panel's Final Decision to the Federal Circuit.

5. Evidentiary Standard is Preponderance of the Evidence

Similar to both *inter partes* and *ex parte* reexamination, and post-grant review, the evidentiary standard or "burden of proof" necessary to establish that a claim is unpatentable is a "preponderance of the evidence." This is a lower standard than the "clear and convincing evidence" standard required to prove a patent claim invalid in a civil action.

6. Request Must Identify the Real Party in Interest

Similar to *inter partes* reexamination, a petition for *inter partes* review must identify the real party in interest. Thus, a party may not anonymously file a petition for *inter partes* review.

7. Limited Discovery Available

Inter partes review will allow for limited discovery of relevant evidence. Discovery will be limited to the deposition of witnesses submitting affidavits or declarations, and "what is otherwise necessary in the interest of justice." The standards and procedures for such discovery will be established by regulation. Protective orders and motions to seal will be available for parties to protect confidential information from becoming public.

8. Barred by Declaratory Judgment Action

Inter partes review will be barred if the petitioner (or real party in interest) filed a civil action challenging the validity of one or more claims of the patent before the filing of the petition for *inter partes* review. However, a counterclaim asserted by the petitioner (or real party in interest) challenging the validity of one or more claims of the patent in a pending civil action will not bar an *inter partes* review,

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even if the counterclaim is asserted before the filing of the petition for *inter partes* review.

9. Barred One Year After Service of Complaint Alleging Infringement

A party will be barred from petitioning for *inter partes* review of a patent more than one year after the party or its privy has been served with a complaint alleging infringement of the patent. The one-year period begins on the date of service, not on the date of filing, of the complaint. Thus, the filing of a complaint without service will not begin the one-year period.

This provision can be particularly problematic for parties that (1) have already been served with a complaint before enactment of the AIA, or (2) are served with a complaint during the year between enactment of the AIA and the availability of *inter partes* review.

For parties that have already been served with a complaint, the only form of Patent Office *inter partes* proceeding available will be interim *inter partes* reexamination. This is because on the date that *inter partes* review becomes available, the complaint will have already been served more than one year previously, thus barring *inter partes* review. An interim *inter partes* reexamination can only be filed before one year from enactment of the AIA. Thus, parties wishing to initiate a Patent Office *inter partes* proceeding that have already been served with a complaint will need to prepare and file a request for *inter partes* reexamination before one year from enactment of the AIA.

For parties that are served with a complaint during the year between enactment of the AIA and the availability of *inter partes* review, only a portion of the year before the bar will take effect will remain. Thus, only a short window may remain during which a petition for *inter partes* review can be filed. Such parties will need to prepare ahead to ensure that their petition is not barred.

10. Automatic Stay

If a petitioner (or real party in interest) files a civil action challenging the validity of a patent on or after the date of filing a petition for *inter partes* review of the same patent, the civil action will be automatically stayed until (a) the patentee moves the court to lift the stay, (b) the patentee files a civil action or counterclaim alleging that the real party in interest has infringed the patent, or (c) the petitioner or real party in interest moves the court to dismiss the civil action. Of course, the court may choose to maintain the stay of a civil action even if the patentee moves the court to lift the stay or files a civil action or counterclaim alleging infringement of the patent.

Like post-grant review, this provision provides the patentee some control over whether a subsequent civil action filed by the petitioner (or real party in interest) will be automatically stayed as a result of the petition for *inter partes* review.

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11. Settlement is Possible

An *inter partes* review can also be terminated upon the agreement of the parties as long as the panel of the PTAB has not "decided the merits of the proceeding" (i.e., issued the Final Decision). If the *inter partes* review is terminated, the petitioner will not be subject to the statutory estoppel provision of *inter partes* review, discussed below.

12. Intervening Rights

In the same manner as reexamination, any claims that have been amended or newly added during an *inter partes* review proceeding will be subject to intervening rights.

13. Statutory Estoppels

Much the same as in *inter partes* reexamination, statutory estoppels apply to the real party in interest and those in privity with it following issuance of a final written decision in an *inter partes* review that has been instituted and not dismissed. A real party in interest or privy cannot challenge the same patent in a proceeding before the Patent Office, in a civil action, or in a proceeding before the ITC "on any ground that the petitioner raised or could have reasonably raised" during the *inter partes* review. This standard is not as severe as the current statutory estoppel provision of *inter partes* reexamination ("raised or could have raised").

This new standard would apparently permit some ground of challenge being raised in a subsequent proceeding that could have conceivably been raised, but which could not have "reasonably" been raised. The scope and extent of what could not have been "reasonably" raised will be left to the courts.

Unlike post-grant review, this standard cannot prohibit challenges to a patent based on information other than prior art patents and printed publications under §§ 102 and 103, because such information necessarily could not have been raised during the *inter partes* review.

14. Recommendations

Depending on a party's circumstances, post-grant review may be preferable to *inter partes* review for challenging particular patents. Thus, as discussed above, we recommend that companies more frequently and more closely monitor the patents granted to their competitors so that a decision to challenge a patent can be made within the nine-month window for requesting post-grant review.

When a third party (1) becomes aware of a patent more than nine months after its grant, or (2) only wants to challenge a patent based on prior art patents and printed publications under §§ 102 and 103, *inter partes* review has cost, time, and procedural benefits. However, any perceived benefit should be carefully weighed against the statutory estoppels and possibility that one or more claims of the competitor's patent that cover the accused product or method may survive *inter partes* review. Thus, much like current *inter*

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partes reexamination, the decision to petition for *inter partes* review should be made on a case-by-case basis, carefully considering the particular circumstances.

J. Failure to Obtain Advice of Counsel

Section 17 of the AIA clarifies that the failure to obtain the advice of counsel (or to present that advice to the jury) may not be used to prove willful infringement or inducement of infringement. Specifically, section 17 adds 35 U.S.C. §298 as follows:

§298. Advice of counsel

The failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may not be used to prove that the accused infringer willfully infringed the patent or that the infringer intended to induce infringement of the patent.

As to willful infringement, the addition of this section, in effect, codifies the Federal Circuit's 2007 decision in *In re Seagate Technology, LLC*, 497 F.3d 1360 (Fed. Cir. 2007), which overturned years of Federal Circuit precedent and made it more difficult to prove willful infringement.

Prior to *Seagate*, an alleged infringer had an affirmative duty of due care to determine whether or not its acts would infringe. In *Seagate*, the Federal Circuit adopted a new test for establishing willful infringement, which eliminated that duty of due care and replaced it with a standard of objective recklessness. The Court in *Seagate* also reinforced its precedent of *Knorr-Bremse Systeme Fuer Nutzfahreuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004), by explicitly eliminating the duty to obtain an opinion of counsel.

In *Seagate*, the Federal Circuit established a two-prong test for objective recklessness:

(1) an objective prong: whether the infringer acted despite an objectively high likelihood that the subject actions constitute infringement; and

(2) a fact-based prong: that this objectively defined risk (which is determined by the record developed during infringement proceedings) was either known or so obvious that it should have been known to the accused infringer.

To evaluate the fact-based prong, a jury should be instructed to consider the totality of the circumstances, with factors including:

(1) evidence of intentional copying;

(2) evidence of designing around;

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- (3) evidence of reliance on advice of counsel;
- (4) substantial defense to infringement; and
- (5) whether the patent has undergone reexamination.

Even after *Seagate*, whether or not an alleged infringer obtained advice of counsel was a factor in determining objective recklessness, and in determining whether and by how much to enhance damages after willfulness has been found. §298 would appear to prohibit use of such information as a factor in determining objective recklessness, but would not prohibit its use in determining whether and by how much to enhance damages after willfulness has been found. In addition, advice of counsel may still be relied upon as a defense to willfulness allegations.

In cases that proceed to trial, an advice of counsel defense may resonate with the jury. In addition, a formal opinion may provide trial counsel with a useful tool. For example, allowing a patent attorney to explain a formal opinion on the witness stand provides an alleged infringer another expert to summarize its invalidity and noninfringement positions.

As with willfulness allegations, although §298 states that the failure of an alleged infringer to obtain advice of counsel may not be used to prove intent to induce infringement, an opinion may be useful in defending against such an allegation. In *DSU Medical Corp. v. JMS Co.*, 471 F.3d 1293 (Fed. Cir. 2006), the Federal Circuit held that inducement requires both knowledge of the patent and intent to induce infringement of the patent. As a result, reasonable reliance on an opinion of counsel can weigh against the intent requirement and help to insulate an accused from charges of inducement.

IV. Other Provisions

A. Satellite Offices

In December 2010, as part of the Patent Office's Nationwide Workforce Program, the Patent Office decided that a satellite office would be opened in Detroit, Michigan. Section 24 of the AIA names this satellite office the "Elijah J. McCoy United States Patent and Trademark Office."

Section 23 of the Patent Reform Act provides that three satellite offices (including the Detroit, Michigan office) shall be established within three years of enactment of the AIA, subject to available resources. Among other considerations, section 23 requires that there be geographic diversity among the satellite offices. Thus, in addition to the Detroit satellite office, it is likely that the Patent Office will open a satellite office on the west coast (e.g., Silicon Valley), and another office in either the South (e.g., Texas or Florida), or in the West (e.g., Colorado).

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The addition of satellite offices is intended to facilitate face-to-face meetings between inventors and examiners, by locating offices closer to major centers of research and development. Satellite patent offices are also intended to broaden the group of potential examiners.

B. Miscellaneous

Section 18 specifies that an automated teller machine (ATM) will not be considered a regular place of business for venue purposes in a civil action for infringement of a patent "that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service" (other than patents for "technological inventions"). This provision becomes effective one year after enactment and applies to any covered business method patent that issues before, on, or after the effective date.

Section 19 of the AIA amends 28 U.S.C. §1338(a) to deny state courts jurisdiction over legal actions relating to patents, plant variety protection, or copyrights. Section 19 also amends 28 U.S.C. §1295(a)(1) to grant the Federal Circuit exclusive jurisdiction of appeals relating to patents or plant variety protection. These changes apply to any civil action commenced on or after the date of enactment of the AIA.

Section 13 of the AIA amends 35 U.S.C. §202(C)(7)(E)(i) to decrease the percentage of certain invention-related royalties and income that must be paid to the federal government and correspondingly increase the percentage that must be used for purposes relating to small business firms when a nonprofit organization has a funding agreement with the government for the operation of a government-owned, contractor-operated facility. This change was effective on the date of enactment and will apply to any patent issued before, on, or after the effective date. Section 20 corrects a related typographical error in 35 U.S.C. §202(c)(7)(D). The correction is effective one year after enactment and will apply to proceedings commenced on or after the effective date.

Section 20 of the AIA amends 35 U.S.C. § 251 to remove the requirement that an error being corrected by a reissue application was "without any deceptive intention." Similarly, §§ 184 and 185 are amended to remove the requirement that a foreign application was improperly filed "without deceptive intent" to obtain a retroactive foreign filing license, and to remove the requirement that the failure to obtain a foreign filing license was "without deceptive intent" to prevent the corresponding U.S. Patent from being invalidated. 35 U.S.C. §116 is amended to remove the requirement that an error in inventorship be "without deceptive intention" to be corrected by amendment, and 35 U.S.C. §256 is amended to remove the requirement that an error in inventorship be "without deceptive intention" to be corrected by Certificate of Correction. 35 U.S.C. §§253 and 258 are amended to eliminate an implication that invalidity of one claim "with deceptive intention" may result in invalidity of all claims of a patent. (However, case law indicates that unenforceability due to inequitable conduct as to one claim can still render all claims of the patent unenforceable.) These changes will take effect one year after enactment and will apply to any proceeding commenced on or after the effective date.

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Section 25 of the AIA authorizes the Patent Office to establish rules providing, at the request of the applicant, prioritized examination of applications for products, processes, or technologies important to the economy or national competitiveness without recovering the aggregate extra cost of providing such prioritization. This expressly authorizes existing Patent Office practices of expediting examination of patent applications in certain technology areas (e.g., "green" technology) without charging extra fees for the resulting expense, and permits reduced fees for such expedited examination for small and micro entities. There is no specified effective date for this change. While it is ambiguous, it appears from the intent of section 35, discussed below, that section 25 is intended to take effect one year after enactment.

Section 33 of the AIA prohibits issuing a patent on a claim directed to or encompassing a human organism in any application pending or filed on or after the enactment of this Act. This express prohibition merely codifies the Patent Office's existing practice of refusing to grant such patents on the basis of the U.S. Constitution's ban on slavery.

Section 37 sets forth a provision concerning calculation of the filing period for patent extension applications related to drug products and certain other items subject to regulation under the Federal Food, Drug, and Cosmetic Act. Specifically, section 37 amends 35 U.S.C. §156(d)(1) to clarify that permission for commercial marketing or use that is transmitted (1) after 4:30 p.m., Eastern Time, on a business day, or (2) on a day that is not a business day, will be considered to have been transmitted on the next business day. This clarification is effective for any application for extension that is pending on, or filed after, or is subject to judicial review on, the date of enactment of the AIA.

Under section 35, all provisions of the AIA that do not have specified dates of enactment and applicability will take effect one year after enactment and apply to all patents issued on or after that effective date.

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Oloff & Berridge, PLC is a full-service Intellectual Property law firm based in historic Alexandria, Virginia. The firm specializes in patent, copyright, trademark, and antitrust law and litigation, and represents a large and diverse group of domestic and international clients, including businesses ranging from large multinational corporations to small privately owned companies, major universities, and individual entrepreneurs.

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