

I N S I D E T H E M I N D S

**The Impact of the
Leahy-Smith
America Invents Act**

*Leading Lawyers on Interpreting and Applying
the Patent Reform Act of 2011*



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The AIA: A Transformative Change in the US Patent System

Eric J. Sosenko

Shareholder

Brinks Hofer Gilson & Lione



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Introduction

Patent reform in its current form has been in the making since at least 2005. With passage of the America Invents Act, many goals of reform have been instituted. Whether these goals will be fully obtained remains to be seen.

Greater certainty with regard to patents, new methods for challenging the validity of patents without litigation, litigation reform, and the chronic funding problems of the US Patent and Trademark Office (USPTO) are just some of the issues patent reform attempts to address. In addressing these issues, Congress did not just settle for minor changes in the US system. Rather, major changes on multiple fronts have been implemented. These changes will take several years to be fully implemented. It will take even longer to determine whether these dramatic changes achieve their intended goals.

From Status Quo to Transformative Change

Everything changes in time; at least, that is how the saying goes. Many patent litigators and prosecutors before the USPTO thought that this saying did not apply to the US patent system in any significant way. As the summer of 2011 waned, however, patent practitioners learned that even US patent law was not immune from change. On initial analysis, this change has to be considered a seismic event. The real question lies, however, in how large will the aftershocks be and for how long they will be felt. Will the changes reverberate with massive disruption, or will they be taken in stride as a momentary tremor?

On September 16, 2011, President Obama signed the Leahy-Smith America Invents Act (AIA). With enactment of this legislation (AIA, Pub. L. No. 112-29, 125 Stat. 284 (2011)), US patent law has entered into a transformative period—one that has been a full sixty years in the making and one that may take nearly as long to sort itself out. Like all seismic events, the initial aftermath will be difficult. Old systems and procedures will be shifted and displaced. New features and mechanisms will appear and rise. Aftershocks will occur. It will take some time before everything calms down. Only then will we be able to judge whether what has emerged is a new and better-built system or a shabby and lesser-quality knockoff.

Harmonization with the World—with a Few Twists

The AIA was passed with much fanfare. The thirty-seven sections of the AIA not only provide structural change to existing sections of the law, but they also create a new foundation for the US patent system. No longer will the United States be the lone country where patent rights are awarded based on who is the first person to invent the subject matter of the patent application. 35 U.S.C. § 102(a). In less than a year-and-a-half, the United States will be more closely aligned with the rest of the world and will begin awarding patent rights to the first-inventor-to-file for patent protection. § 3(b)(1), 125 Stat. 284.

In too many conversations, a key point of this change seems to get lost. The new US system is not a system in which the first person to file for a patent is the one who is entitled to obtain the patent on the invention. In other words, the new system is not a first-to-file system. Rather, the new system is a first-inventor-to-file system. One still must be a true inventor to be entitled to a patent, and one who learns of the invention from another is still not entitled to the patent. Thus, a key component of the prior system, actual “inventorship,” has been retained.

Derivations proceedings, both before the USPTO and through the federal court system, provide two mechanisms that will allow a true inventor to recover a patent from another person attempting to steal the invention from the true inventor. § 3(h), 125 Stat. 284. While these mechanisms cannot ensure that theft of an invention will not take place or be attempted, they do provide a recovery mechanism. To most effectively prevent such a theft, whenever there has been a disclosure of the invention to a third party, confidential or not, the owners of the technology will want to implement watch mechanisms to monitor published patent applications and patents. If theft is detected during the pendency of the derived patent application, a true inventor can request a proceeding before the USPTO, which should be less expensive for the inventor than having to resort to the court system.

The Grace Period and Its Impact on Novelty

One variance from most foreign countries is that the US patent system will still maintain a one-year grace period for disclosure made by an inventor.

This retention of the grace period is seen as a compromise relating to the changing over to a first-inventor-to-file patent system.

The grace period allows an inventor to file for a patent even after the invention has been publically disclosed. § 3(b)(1), 125 Stat. 284. In this regard, the US system is not becoming a system that requires absolute novelty to be awarded the patent. As with the current US system, inventors will still have one year from a public disclosure of the invention to file for a patent on the disclosed invention. This grace period also cannot be destroyed, in the interest of equity, it seems, as a result of another person's having filed for a patent after that public disclosure, but before the patent filing of the earlier inventor. In this instance, the public disclosure by the earlier inventor will operate to prevent the later applicant, perhaps still a true inventor, from obtaining the patent. The prior public disclosure will be considered prior art to the subsequent applicant's patent application. The prior public disclosure, however, would not and does not operate as prior art to the earlier inventor because of the grace period, even though the earlier inventor did not file for patent protection until after the earlier application. In this situation, the second filer would obtain the rights to the patent by virtue of his earlier publication.

In this regard, inventors should consider whether a public disclosure has tactical advantage as prior art to competitors. This consideration applies, however, only when foreign patent rights are not desired. In almost all foreign countries, any public disclosure, and particularly in a printed publication, will preclude an inventor from obtaining a patent on the disclosed invention.

Is a Rush to File Necessary?

With the adoption of the first-inventor-to-file system, do independent inventors and small companies now need to rush to file their patent applications? Perhaps not.

Whether they have realized it or not, independent inventors and small companies have long been affected by first-to-file patent systems. Large multinational companies, as well as small foreign businesses, have long operated under the rest of the world's first-to-file system. The patent

practices of these companies have already taken into account the effects of that system. For this reason, most companies that operate on a global scale have guidelines in place that include timelines on how quickly invention disclosures should be reviewed, searched, and filed on. The adoption of the first-inventor-to-file system in the United States will not significantly alter these guidelines for those companies, since foreign practice and, therefore, the first-to-file system itself have already been taken into consideration. US independent inventors and small companies will need to be diligent in proceeding to the filing stage on their inventions. Furthermore, a proper and prudent use of provisional patent applications will also help alleviate fears relating to racing to the USPTO with patent filings.

Statistics confirm that it is only infrequently that the USPTO must decide who the first true inventor is. USPTO statistics show that that few interference proceedings (the USPTO proceeding where a first inventor seeks to acquire the patents rights over a subsequent, but earlier filing, inventor) are instituted each year. In fiscal year 2010, only fifty-two interferences were instituted—less than 0.01 percent of the 520,277 patent applications filed that year. FY 2011 U.S. Patent and Trademark Office, Board of Patent Appeals and Interferences Process Production Report, <http://www.uspto.gov/ip/boards/bpai/stats/process/fy2011sepb.jsp> (last visited Oct. 18, 2011). From the above facts and statistics, it would seem that the fears regarding switching to a first-inventor-to-file system will result in first inventors losing an inordinate number of patents to large, multinational companies are somewhat misplaced.

Notwithstanding the above, in the nearly eighteen months before the first-inventor-to-file system takes full effect, it is anticipated that entities of all stripes will be proceeding to file patent applications on as many inventions in their systems as possible. This will be not so much to beat another patent filer, but more to take advantage of current provisions in the law that allow an applicant to swear behind cited references by virtue of the applicant's earlier invention date. With the implementation of the first-inventor-to-file system, this argument and mechanism will no longer be available.

Patent practitioners in the years to come will also need to be cognizant regarding whether their applications fall under the first-inventor system and rules or under the first-inventor-to-file system and rules, and to argue and proceed under the old system when applicable.

Safeguards against Invalid Patents

The AIA also introduces several vehicles for reducing the likelihood that invalid patents are issued, while at the same time strengthening those patents that are issued. These changes include the introduction of a new system of post-issuance proceedings, as well as mechanisms to ensure the consideration of prior art during the pendency of the patent application and post-issuance of the patent. Three new post-issuance proceedings come into effect on September 16, 2012. Two of the systems being implemented are post-grant review and *inter partes* review. § 6, 125 Stat. 284. Like the first-inventor-to-file system, these systems also have parallels in foreign practice. Numerous foreign countries have mechanisms by which a member of the public can seek to revoke an issued patent in a proceeding before a patent tribunal. These foreign proceedings are most commonly known as opposition and nullity proceedings.

Post-Grant Review

The new post-grant review is an administrative proceeding before the USPTO where the validity of a recently issued patent can be challenged. § 6(d), 125 Stat. 284. During the first nine months after issuance, a patent can be challenged on virtually any ground relating to validity. Not only can a lack of novelty or obviousness be asserted based on published documents, but it can also be asserted on the grounds that the patentability is barred on the basis of prior sales or public use of the invention. In addition, one can assert failures to comply with other patentability requirements, such as the enablement or written description requirement. One caveat regarding which patents can be subjected to post-grant review is that, with limited exceptions, the patent must have a priority date that is on or after March 16, 2013, the effective date of the first-inventor-to-file provisions of the AIA.

To institute a post-grant review, a petitioner must pay the requisite fee, identify the real parties in interest, and identify in writing and with particularity each challenged claim, including the grounds on which the challenge is based and the evidence that supports the grounds for the challenge (with copies of the patents and printed publications being relied on, as well as affidavits and declarations of supporting evidence and opinions, if the petitioner is relying on other factual evidence or expert

opinions). Copies of all of the above must also be provided by the petitioner to the patent owner. On receipt of the above, the patent owner has the right to file a preliminary response to the petition. In that response, the patent owner may set out the reasons no post-grant review should be instituted. In weighing the petition, if it demonstrated that at least one of the challenged claims is more likely than not unpatentable, then the director is to institute the post-grant proceeding. This decision on the part of the director is to occur quickly, like all parts of post-grant review, within three months of the receipt of the response of the patent owner.

Decisions regarding proceeding with post-grant review must be weighed against the filing of a civil action for a declaration of invalidity. If the petitioner has previously filed a civil action challenging the validity of a claim of the patent in question, post-grant review may not be instituted. In a related context, if the petitioner simultaneously or subsequently files a civil action challenging the validity of the patent, that civil action will be automatically stayed until one of three actions by the patent owner occurs—he or she moves to lift the stay, files a civil action or counterclaim for infringement, or moves to dismiss the civil action. Thus, the petitioner needs to decide whether a civil action or post-grant review will be pursued. It should be noted, however, that if the patent owner files a civil action within three months of the issuance of a patent, consideration of the patent owner's motion for a preliminary injunction cannot be stayed by the court as a result of filing for post-grant review, or even the institution of a post-grant review proceeding.

While full consideration of the merits of post-grant review cannot be made until the USPTO issues the regulations under which it will operate, it is already clear that one will need to consider the estoppel effects of post-grant review, which are significant. If post-grant review is undertaken, any issue that was raised, or reasonably could have been raised, by the petition will invoke estoppel. Thereafter, these issues cannot be raised in subsequent civil litigation. Since there are broad grounds under which post-grant review may be instituted, the implications of estoppel are correspondingly broad. Procedurally, the post-grant review process will allow the patent owner to file a response after the institution of the proceedings for:

- Discovery related to the factual assertions advanced by either party
- The entry of protective orders
- Amending of the patent by the patent owner
- Oral hearing
- Settlement by the parties

As noted above, these proceedings with the USPTO are also to be conducted quickly. The new law provides that a determination in a post-grant review be made within one year of the institution of the proceedings or within one-and-a-half years if good cause is shown.

While the AIA provides for post-grant review to be conducted quickly, it will not be implemented quickly. Post-grant review is available only for patents that have an earliest effective filing date on or after the effective date of the first-inventor-to-file provisions of the AIA. Accordingly, assuming that the current backlog at the USPTO persists and that a patent filed under the first-inventor-to-file provisions does not grant until three years after filing, it will be about four-and-a-half years until the first post-grant review petition can even be filed. *Inter partes* review will be instituted more quickly, however.

Inter Partes Review

The AIA replaces the current *inter partes* reexamination proceeding with a new proceeding, *inter partes* review. Like post-grant review, *inter partes* review is a proceeding to challenge the validity of a claim in a patent. See § 6(a), 125 Stat. 284. It is, however, more limited in scope than post-grant review and cannot be instituted until after the expiration of the period for post-grant review or until after termination of a pending post-grant review proceeding.

Under *inter partes* review, a petitioner will not be able to assert a failure to comply with the enablement or written description requirements. Neither can one assert that prior sales or public use should have barred the issuance of the patent. Rather, those grounds that may be asserted are restricted to obviousness or a lack of novelty based only on patents or printed publications. As noted above, *inter partes* review will be implemented faster than post-grant review. It does not carry any limitation regarding the effective filing date of the patent being challenged. Rather, *inter partes* review

came into effect on September 16, 2012, and can be implemented against any patent issued before, on, or after that date.

The process of instituting an *inter partes* review is similar to post-grant review. A petitioner must pay the requisite fee, identify the real parties in interest, and identify in writing and with particularity each challenged claim, including the grounds on which the challenge is based and the evidence that supports the grounds for the challenge (with copies of the patents and printed publications being relied on, as well as affidavits and declarations of supporting evidence and opinions, if the petitioner is relying on other factual evidence or expert opinions). Copies of all of the above must also be provided by the petitioner to the patent owner. On receipt of the items, the patent owner similarly has the right to file a preliminary response to the petition. For the director to institute an *inter partes* review, it must be demonstrated that there is a reasonable likelihood that the petitioner will prevail on at least one of the challenged claims. This standard is therefore higher than that governing post-grant review and is to occur quickly, within three months of the receipt of the response of the patent owner.

Estoppel and stay issues will also come into play when considering whether to seek an *inter partes* review. If an issue was raised or reasonably could have been raised during an *inter partes* review proceeding, estoppel will apply to that issue in a subsequent civil proceeding. However, since the grounds available to a petitioner under *inter partes* review are more limited than those under post-grant review, the estoppel effects are also more limited. Based on this, if a petitioner is relying only on printed publications or patents to assert that an issued patent is invalid, the petitioner may be better served by challenging the patent under *inter partes* review instead of post-grant review. By doing so, one would preserve the right in subsequent civil litigation to assert invalidity based on prior sales, public use, and enablement and written description grounds. Regarding stays, a petitioner will again need to decide whether it is more desirable to proceed under *inter partes* review or a civil action, since similar stays are also automatic under *inter partes* review.

If post-grant and *inter partes* reviews are embraced as an enforcement mechanism in the United States, they will offer a lower-cost alternative to civil litigation. At this time, the procedure by which the two reviews will be conducted by the USPTO is not exactly clear. Those details will be outlined

further by the regulations promulgated within the next year, and one can expect limitations on the length of all petitions and subsequent filings with the USPTO. Discovery will be allowed, but we know discovery will be limited to factual assertions and the depositions of witnesses submitting declarations and affidavits, and to what is otherwise necessary in the interest of justice. While the latter is open-ended, the former significantly limits broad-based discovery that is commonplace in civil litigation. And while oral arguments may end up being more generous than in patent appeal practice, one can expect these arguments will be limited in both scope and duration.

Complaints about the USPTO

A main source of complaint against the USPTO continues to be the backlog of pending patent applications. Currently, the backlog is such that it takes, on average, more than two years to receive a first office action on the merits. The AIA seeks to alleviate this problem in two ways.

First, it provides for the establishment of a Reserve Fund, the fees of which are to be made available only for the obligations and expenditures of the USPTO. § 22, 125 Stat. 284. The amount of fees to be deposited into the Reserve Fund is the amount of fees collected in excess of the amount appropriated by Congress to the USPTO for that fiscal year. Presuming that Congress authorizes the USPTO, through appropriations, to expend the amount in the Reserve Fund, the USPTO will have additional resources to attack the backlog, including hiring additional examiners and seeking better ways to retain the examiners it has.

The second way the AIA seeks to reduce the backlog of patents at the USPTO is through examiner retention. The USPTO hopes to increase examiner retention through the establishment of satellite offices. § 23, 125 Stat. 284. A minimum of three satellite offices are mandated for establishment within the next three years. Presuming the appropriations by Congress are sufficient for such expansion, this will allow the USPTO to tap into employee pools from which it has otherwise been excluded. One such office has been planned for the Detroit, Michigan, area. By locating an office in the Detroit area, not only does the USPTO place an office in an area with lower operating costs, but it also positions itself to attract examiners from an area of the country that has a high per capita ratio of engineers and scientists, many with some type of patent-related experience.

Other offices are expected to be geographically dispersed around the country. One can envision such additional satellite offices on the West Coast and in the South.

Closing Thoughts

While the passage of the AIA is easily a major change in the United States, these changes may in the end be less disruptive and devastating than some have suggested. The goals of the changes are to reduce uncertainty relating to the validity of patents, to provide alternatives and decrease litigation costs, and to eventually reduce the backlog of patents at the USPTO. So I believe the AIA is a seismic event that shakes us in the right direction for promoting, as stated in Article I, Section 8 of the US Constitution, the “Progress of Science and the useful Arts.” U.S. CONST. art. I, § 8.

Eric J. Sosenko is a shareholder in the law firm of Brinks Hofer Gilson & Lione, one of the largest intellectual property law firms in the United States. He chairs the firm’s Patent Reform Committee and has lectured on this topic both domestically and internationally. He also currently serves as secretary/treasurer of the Intellectual Property Law Section of the State Bar of Michigan. Mr. Sosenko’s practice concentrates on the mechanical, material, and medical arts and includes US and worldwide patent and trademark strategy, counseling, procurement, and management.



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