

# Lined up for Change: Patent Reform 2011

by Eric Sosenko

As of the writing of this piece in June, debate on the House bill had not yet begun. The discussions of the text of the legislation presented in this article are based on the passed version of the Senate bill and Judiciary Committee mark-up of the House bill. With this context of the legislative process in mind, it is understood that there will likely be further changes, some potentially significant, to both bills prior to enactment.

When rumblings of patent reform started to percolate late last year, part of the patent community just wanted to cover their ears and wait until all the noise had died down. Let's face it, we have been down this road before, more than once, and very little or nothing has come of it. Need we pay attention in 2011? I don't know if the weather patterns have shifted or what, but something about the whole discussion of patent reform in Washington, D.C., does indeed seem different. Different enough to say that change—significant change—is definitely in the air.

During the last attempt at patent reform, many people spent a lot of time analyzing the proposed changes. The U.S. House passed significant measures, but reform languished in the Senate and, in the end, nothing was passed. This past March, the reverse happened. A major reform bill, Senate Bill 23 (S. 23), was introduced. For the first time in six years, a reform bill was brought to the Senate floor. Over the course of just one week, S. 23 was debated, amended, and passed. Not only has the reform bill passed the Senate, but President Obama has indicated his support for the bill. Before the end of March, the House had begun circulating a draft version of its own bill. Finally, in the last days of March, a House bill was introduced. That bill, H.R. 1249, has been marked up by the Judiciary Committee and now awaits debate by the full House.

With all of this in place, the winds of change do in fact seem strong enough to warrant a review of the key provisions of the Senate bill that has been passed and the House bill that awaits debate. As of the writing of this article, debate on the House bill had not yet begun. The discussions of the text of the legislation presented here are based on the passed version of the Senate bill and Judiciary Committee mark-up of the House bill. With this context of the legislative process in mind, it is understood that there will likely be further changes, some potentially significant, to both bills prior to enactment.

It is apparent that numerous provisions of S. 23, if enacted, would drastically change the landscape of patent law in the United States. Several of the provisions would also generally harmonize United States law with the rest of world. Key sections of S. 23, as passed by the Senate, are discussed below, with corresponding sections of H.R. 1249 contrasted where they differ.

## First Inventor to File

Section 2 of S. 23 is the longest section of the bill and contains one of the most contentious provisions, namely switching the United States to a first-to-file country. The section also introduces new proceedings called “derivation proceedings”

and numerous other provisions.

Currently, the United States is the only country to award a patent to the person who is the first to invent the claimed subject matter. This system has its benefits but can lead to complicated proceedings to resolve the question of who was the first to invent when it arises. If adopted, the first-to-file provisions would do away with the United States' unique system. It is argued by some that the proposed system would offer clarity and transparency in the area of patent ownership. Opponents counter that a first-to-file system will disadvantage small companies and individual inventors.

First-to-file or, more correctly, first-inventor-to-file, requires that, where two patent applications are directed to the same invention, the patent is to be awarded to the inventor whose application has the earliest effective filing date, which is either the earlier of the filing date of the application or the earliest filing date to which the application has a right of priority. An underpinning of this system is that the applicant must have in fact invented the claimed subject matter. Acquiring or deriving the invention from a third party is an insufficient basis for filing an application on the invention. In this regard, S. 23 has safeguards against misappropriation of a true inventor's invention, which are the derivation proceedings mentioned above and discussed later in this article.

Under proposed modifications to § 102, an applicant will be entitled to a patent unless the invention was patented, described in a printed publication, or in public use, on sale, or otherwise available to the public before the effective filing of the claimed invention; or the invention was described in a patent or published patent application filed by another and having an earlier effective filing date than the claimed invention. The above novelty standards, however, are not absolute, as is commonly the case in many other countries. Rather, § 102 retains exceptions for disclosures made within one year prior to the effective filing date. The exceptions include situations where the disclosure was made by the inventor(s) or by someone who obtained the disclosed material directly or indirectly from the inventor(s), or the disclosure was a public disclosure made by the inventor(s) or by someone who obtained the disclosed material directly or indirectly from the inventor(s).

With regard to first-inventor-to-file, H.R. 1249 is substantially the same as S. 23.

## Statutory Invention Disclosures

Statutory invention disclosures are a little-used registration procedure under current law. With both S. 23 and H.R. 1249, statutory invention disclosures are eliminated.

## Derivation Proceedings and Actions

With the introduction of first-to-file, the need for § 1.131 affidavits and interference proceedings, whereby an earlier date of invention is asserted to swear behind a reference or whereby of two competing applications for the same invention the earliest of the inventors is determined, are no longer needed and are eliminated. That is not to say that an inventor does not have recourse if it is believed that another has wrongfully applied for a patent on the inventor's invention. To this end, S. 23 and H.R. 1249 both introduce a new derivation proceeding and a new civil derivation action.

While an application is pending before the United States Patent and Trademark Office (USPTO), the inventor may institute a derivation proceeding when it is believed that a person named in an earlier-filed application derived the invention from the inventor. To institute a derivation proceeding, the applicant must petition for the derivation proceeding within one year of first publication of similar or substantially similar claims to the earlier application, while presenting substantial evidence in support of the assertion of derivation. Thus, if an inventor or company discloses an invention to a third party, it will be prudent on the part of the disclosing party to monitor published patent applications to be sure that a patent application was not filed by the third party on the invention.

If it is determined by the director that a derivation proceeding should be instituted, the proceeding will be conducted by the Patent Trial and Appeal Board (PTAB), which is the Board of Patent Appeals and Interferences under a new moniker, and negative determinations by the PTAB may be appealed to the Federal Circuit. Settlement of the proceeding, prior to a decision by the PTAB, is permitted if the agreement, as to the correct inventors, is not inconsistent with the evidence of record. If settled, the settlement agreement can be designated as confidential business information and kept separate from the public record.

A civil derivation action may be filed by the owner of a patent against the owner of another patent. Similar to the derivation proceeding, if a civil derivation action is to be filed, it must be filed within one year of the issuance of the later patent.

The actual situational requirements for instituting a civil derivation action, however, seem limited. First, a second patent must be obtained by the true inventor. This poses obvious difficulties because with the existence of another patent, with an earlier effective filing date, for the same invention, the second patent may never issue.

With regard to derivation proceedings, it is unclear if the derivation proceedings will allow an applicant in a second application to institute a proceeding where the earlier application has already issued into a patent. The derived invention is only mentioned with respect to an earlier application, not an issued patent. The section, however, could be read broadly to encompass the earlier application underlying the patent.

## False Marking

In response to the recent wave of false marking lawsuits, both S. 23 and H.R. 1249 seek to provide relief to defendants. The bill revises § 292 to make it so that only the United States can sue for penalties authorized thereunder. However, if an

individual can show a competitive injury resulting from a violation of § 292, that individual may seek to recover compensatory damages. These provisions would apply not only to cases in the future, but also to all lawsuits pending on the enactment date of the Patent Reform Act of 2011, thereby resolving substantially all such lawsuits with the stroke of a pen.

## Effective Dates

The amendments made by the two bills relating to first-to-file and derivation will take effect 18 months after enactment and apply to any patent application having an effective date that is 18 months after the enactment date. Applicants wishing to retain the benefits of the first-to-invent system will want to monitor the effective date, possibly accelerate innovation and development timelines, and initiate patent filings before that date. With regard to interfering patents, the law in effect on the day prior to enactment will apply to any application that has a claim with an effective filing date that is earlier than 18 months after the date of enactment. Regarding other provisions, those amendments take effect one year after enactment.

## Inventor's Oath

Both bills still require an inventor to sign an oath or declaration indicating that they are the sole or joint inventor of the claimed subject matter, and still include provisions where a substitute statement can be provided when an inventor refuses or cannot sign. However, a person to whom the inventor has assigned or is under an obligation to assign the invention is more simply permitted to apply for a patent and is more simply permitted to submit a substitute statement.

When an inventor refuses to sign an oath or declaration, the person to whom the inventor is obligated to assign can merely assert in the substitute statement that the inventor is obligated to assign and refuses to sign an oath or declaration. In this situation, the applicant is not required to establish that the action is required to preserve the interests of the parties and is not required to file as an agent or on behalf of the inventor. Those requirements are reserved for situations where the other person has a sufficient proprietary interest and the inventor is not under an obligation to assign the invention.

## Prior User Rights

Under § 4 of S. 23, the personal defense to infringement based on an earlier inventor's use of a method is expanded to include coverage, not only to the person who performed the acts necessary to establish the defense, but also to the person who caused the acts to be performed and to any entity that controls, is controlled by, or is under common control with such person. The House provisions are similar but the

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**Eric Sosenko** is an attorney with the Ann Arbor office of Brinks Hofer Gilson & Lione. His practice concentrates in the mechanical and material arts and includes worldwide patent and trademark portfolio management and administration for various multinational clients. In addition to his U.S. practice, Mr. Sosenko's international practice includes extensive experience with international applications under the Patent Cooperation Treaty and national applications with all major foreign patenting authorities, community trademark practice, and Hague agreement practice (International Deposit for the Protection of Industrial Designs). He can be reached at [esosenko@brinkshofer.com](mailto:esosenko@brinkshofer.com).

provisions broaden the availability of prior user rights in one regard and restrict them in another.

With regard to broadening, H.R. 1249 makes prior user rights available to all inventions, not just methods. Under current law, prior user rights are available only with regard to business methods.

In addition to the current requirements that the prior user asserting the defense must have reduced the invention to practice a year before the effective filing date and must have commercially used the invention before the effective filing date of the patent, the House bill provides two situations where prior user rights would not be available. Specifically, prior user rights would not be available as a defense where the patent was developed pursuant to a federally funded research and development agreement or where the patent was developed by an institution of higher education, without funding from a private business enterprise.

Needless to say, the expansion of the defense to all inventions and the latter two carve-out provisions restricting the defense are proving to be controversial and may be the subject of significant and further debate in the full House.

### **Virtual Marking and Advice of Counsel**

The Senate and House bills also permit virtual marking by allowing for marking with the word “patent” or “pat.” and reference to an Internet address where posting of the relevant patent numbers is freely available to the public.

Failure of an infringer to obtain the advice of counsel is codified in both bills as not being usable to prove that the infringer willfully infringed or induced infringement of the patent.

### **Post-Grant Proceedings**

Two types of post-grant proceedings are provided under the two bills—post-grant review and inter partes review. In both situations, a person who is not the patent owner may petition for the institution of either a post-grant review or an inter partes review of a patent. In a post-grant review petition, the party can seek to cancel any claims on the grounds that the patent is invalid on the basis of failing to meet the conditions for patentability under §§ 102 and 103, as well as failure to comply with the enablement and written description requirements for a specification and for any reason that could be raised under the provisions for reissues. In an inter partes review, the petitioner can seek to cancel any number of claims as being unpatentable only on grounds that could be raised under § 102 or 103 and only on the basis of prior art patents or printed publications.

To seek a post-grant review, the petition must be filed within nine months (12 months in the House version) of the issuance of the patent. For an inter partes review, the petition must be filed after nine months (12 months in the House version) after the granting of the patent or after the termination of any post-grant review of the patent.

For both types of review, the petition must name the real parties of interest, include the requisite fee, and identify each challenged claim, the grounds of the challenge, and the evidence that supports the challenge, including copies of the prior art being relied on and affidavits or declarations of

supporting evidence if expert opinions are to be relied upon.

If either review is commenced, the patent owner has the right to file a preliminary response to the petition, within two months, setting out any reasons as to why the review should not be commenced, including failure to meet any of the requirements for such petitions. The reviews are not commenced unless the director has determined, based on the petition and any preliminary response, that it is more likely than not that at least one claim is unpatentable and will be found invalid. Thus, the standard for instituting the reviews is not very high.

The use of either review needs to be considered early as part of an overall litigation or pre-litigation strategy because these courses of action can be precluded by various actions or inactions on the part of the petitioner. For example, if a civil action challenging the validity of the patent was previously filed by the petitioner, then recourse to either review is precluded. Also, an inter partes review is precluded if the patent holder has served a complaint on the petitioner and more than six months (nine months in the House version) have elapsed. The House bill also institutes automatic stays of civil actions challenging validity if the petitioner has previously filed for a post-grant or inter partes review. It should additionally be noted that certain estoppel principles apply to post-grant and inter partes reviews. Grounds that could have been raised in other proceedings before the USPTO cannot be raised in a review and grounds that were raised or could have been raised during a review cannot be subsequently raised in a civil action or an International Trade Commission action.

During the reviews, the patent owner will be permitted one motion to cancel any challenged claim or propose a substitute set of claims. As one would expect, the amendments may not enlarge the scope of the claims or introduce new matter.

There are two ways in which such reviews may be concluded: settlement of the parties or a decision by the PTAB. If settled, the settlement must be in writing, but it may, at the request of the parties, be kept separate from the remainder of the publically available records. If concluded by a decision of the PTAB, that decision is appealable to the Federal Circuit. The PTAB is to take an aggressive stance in proceeding with these reviews and is to conclude each review within one year from institution by the director. As a result, if this time schedule is achieved, the review system will offer an attractive alternative to litigating invalidity issues.

Also, the implementation of inter partes reviews is to be graduated based on the number of inter partes reexaminations so as to not overload the PTAB.

### **Prior Art Citations**

Another weapon to combat issuance of invalid patents, in addition to the reviews mentioned above, is the prior art citation. Under both bills, any person at any time may cite to the USPTO prior art patents and publications, or statements on the scope of the claims made by a patent owner filed in a court proceeding, bearing on the patentability of a claim in a patent. If the pertinence and manner of applying the citation are explained in writing, the citation will become part of the official file wrapper of the patent, potentially allowing the USPTO or others to use the subject matter of the citation to

construe the meaning or invalidate the patent in other proceedings or reviews.

### **Preissuance Submissions by Third Parties**

Both bills expressly authorize the submission for consideration and inclusion in the record of an application or patent any patent or printed publication by any third party. Such submissions must present the asserted relevance of the submission, include a fee, and be timely. Timeliness requires the submission to be before a notice of allowance or before the later of six months after publication of the application or the date of first rejection of any claim by the examiner.

### **Fee Setting Authority**

The director is granted in the bills the authority to set, by rule, all fees established or charged under 35 U.S.C. or 15 U.S.C., provided that these amounts are set so as to recover the estimated costs of the USPTO. The House bill, however, also proceeds to set fees for various filings and actions.

### **Supplemental Examination**

A patent owner is authorized to request supplemental examination of a patent to consider, reconsider, or correct “information” believed relevant to the patent. Current reissue practice does not provide for the consideration of “information,” only the situation where the patent is inoperative or invalid as a result of a defective specification or drawing, or by reason of the patentee claiming more or less than he or she was entitled to claim.

Under the reform provisions, if it is believed that the request raises a new question of patentability, reexamination is to be ordered by the director and is to be conducted in accordance to the reexamination provisions of chapter 30 of 35 U.S.C. One caveat of the new procedures is that a patent cannot be held unenforceable based on the conduct relating to the information that had not been previously considered. As such, the submission of information and the making of the request can be used to have previously known, but unconsidered, information considered without fear of inequitable conduct being raised as a result of the information not being previously submitted. The House bill, however, further precludes supplemental examination to consider additional information if it is determined that fraud was practiced on the USPTO. This “excuse” of prior conduct also is not applicable when litigation proceedings are pending prior to conclusion of the reexamination of the patent and a defense is raised in the action based upon the information being considered.

### **Micro Entity Status**

A new entity status is created in the bills—the micro entity. Such entities are entitled to a 75% reduction of the established fees of the USPTO. A micro entity is generally defined as an applicant that qualifies as a small entity and has not been named on five or more previously filed patent applications, did not have gross income in the prior year that exceeded three times the most recently reported median household income, and has not assigned, granted, or conveyed and is not obligated to assign, grant, or convey a license or ownership to an entity that does not also qualify for micro entity status, other than an entity of higher education.

### **Tax Strategies**

All strategies for reducing, avoiding, or deferring tax liability are deemed by the bills to be insufficient to differentiate the claimed strategy from the prior art. The result is that tax strategies are rendered unpatentable. To clarify that avoidance strategies are prohibited and that methods, systems, etc. for preparing tax returns or other filings are not intended to be prohibited, the latter are expressly excluded from the prohibition. The House bill further clarifies that financial management tools also are not prohibited.

### **Best Mode Requirement**

While the best mode requirement of 35 U.S.C. § 112 is retained for obtaining a patent, the best mode requirement is excluded in 35 U.S.C. § 282 as a basis on which any claim can be canceled or held invalid or otherwise unenforceable. The practical result of this change is that the best mode requirement has been effectively gutted; examiners and the examination procedure are ill-equipped to investigate best mode deficiencies during the prosecution stage.

### **Transitional Program for Business Method Patents**

Both bills contain provisions relating to a transitional post-grant review proceeding for reviewing the validity of covered business method patents. This program differs from post-grant review as discussed previously in several significant areas.

Generally, a transitional post-grant review proceeding is governed by the statutes covering post-grant review. A major exception, however, is that the transitional post-grant review proceeding for covered business method patents is not restricted by the nine-month deadline for requesting post-grant review. Additionally, in order to file for review under a transitional proceeding relating to a business method patent, one must have been sued or charged with infringement under that patent. Where a final written decision issued in a corresponding transitional post-grant review, estoppel issues will apply to a subsequent civil action or ITC action. A sunset provision is provided with respect to this section of the reform. Specifically, four years after the effective date of the legislation, the provisions relating to Transitional Programs for Business Method Patents are set to expire.

### **USPTO Funding**

The practice of diverting fees collected by the USPTO from the USPTO to the general fund of the United States Treasury, long a sore spot of nearly all patent and trademark practitioners, is eliminated and stopped by both bills. Created is a revolving fund where collected fees are to be retained for the exclusive use of the USPTO without any fiscal year limitation.

### **Satellite Offices**

As is well known, the USPTO is establishing a satellite office in Detroit. Under S. 23, the director is authorized to establish three such satellite offices (under the House bill, the director must establish three or more satellite offices) for the purposes of increasing outreach activities, enhancing examiner retention, improving recruitment of examiners, and decreasing the backlog of applications awaiting examination.

### **Priority Examination for Technologies Important to American Competitiveness**

One priority examination procedure is contemplated by both bills. If the technology is important to the national economy or national competitiveness, the USPTO may provide for the prioritization of examination of such applications, at the request of the applicant and without requiring recovery of the cost of such prioritization.

### **Conclusion**

As seen from the above, change appears to be in the wind and on the mind of Congress. The changes are significant, but as we all know, the force of the wind can die down quickly. We have seen that in the past. This time, however, the force behind the wind seems steady enough to line up our sails and begin a new course. ■