

## Congress Makes Substantial Changes to Patent Law With the America Invents Act

President Obama signed the “America Invents Act” (the “Reform Act”) into law on September 16, 2011.<sup>1</sup> This is the first major reform of patent law in the United States since 1952 and the product of five years of legislative proposals. It amends Title 35 of the United States Code (the “Patent Act”), with the stated intent of encouraging innovation. The Reform Act generally will be effective one year from signing, on September 16, 2012, although some provisions take effect immediately and others are to be implemented more than one year from now. Key provisions of the Reform Act and their effective dates are set forth below.

### *I. Inventorship priority for the “First to File,” rather than the “First to Invent”*

The most significant legal change in the Reform Act is the conversion from a “first-to-invent” rule to a “first-to-file” rule for determining priority among competing claimants of an invention. Most countries employ a first-to-file rule, awarding a patent to the first party who files an application for an invention, even though another party may actually have been the first independent inventor. This conversion to the first-to-file system is effective on March 16, 2013.

*Novelty and prior art.* The Reform Act effectuates this change by amending section 102 of the Patent Act, which describes what constitutes “prior art” that precludes patentability for lack of novelty, to bar the grant of a patent whenever 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, namely the filing date of the patent application claiming the invention (or a prior date if priority rights are sought, e.g., when claiming priority to an earlier-filed foreign application); or

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<sup>1</sup> H.R. 1249, 112th Cong. (2011), available at [http://www.uspto.gov/aia\\_implementation/bills-112hr1249enr.pdf](http://www.uspto.gov/aia_implementation/bills-112hr1249enr.pdf)

- described in a U.S. patent or in a published application for a U.S. patent, in which the patent or application names another inventor and was effectively filed before such effective filing date.

By contrast, the current Patent Act permits the award of a patent to the first to invent an invention, providing that a person is entitled to a patent unless, *before the invention thereof* by such person, (i) the invention was “known or used by others in this country, or patented or described in a printed publication in this or a foreign country,” or (ii) was made in the U.S. by another inventor. Accordingly, if inventor A makes an invention (but does not make it publicly available) prior to inventor B, but inventor B files a patent application for the invention first, then, under the Patent Act, inventor A’s prior art precludes inventor B from obtaining a patent and, if inventor A filed a patent application, inventor A may be eligible for the patent (assuming it prevails in interference proceedings). However, under the Reform Act, inventor B will be eligible for the patent in the foregoing circumstances because it is the first inventor to file, assuming inventor B is an independent inventor.

The Reform Act provides protection to an inventor when the first filer of a patent application is alleged to have derived the claimed invention without authorization from the actual inventor. For those circumstances, the Reform Act permits the inventor to file a “derivation petition” in the United States Patent and Trademark Office (“USPTO”) within one year of the publication of the patent application and a “civil derivation action,” for which the deadline is one year from the issuance of the patent being contested. The derivation proceedings replace interference proceedings, the current USPTO proceedings for determining the first inventor when two or more applications claim the same invention.

*Grace period for inventor’s disclosure.* The Reform Act maintains the one-year grace period for filing an application after the public disclosure of an invention by the inventor or a third person who obtained the information from the inventor, but limits the grace period to the inventor who first discloses the invention. The one-year grace period is a peculiarity of U.S. law, and most other countries require that a patent application be filed before any enabling public disclosure of the invention is made.

*Some implications.* The Reform Act likely will increase public disclosures of inventions and/or early filing of patent applications. Under the current regime, an inventor may keep his or her invention secret and challenge a later inventor’s application as the first inventor. The new regime will eliminate this option. Under the Reform Act, the best way to avoid a competing claim to an invention is to either file first or to make the invention available to the public by other means (rendering it prior art) and, if desirable, to follow with an application within one year.

## ***II. Prior commercial use***

To protect those who have been using an invention without publicly disclosing, using or selling it or seeking to patent it before another person files a patent application for it, the Reform Act significantly expands the “prior commercial use” defense that previously applied only to business method patents. The defense under the Reform Act will apply to all “subject matter consisting of a process, or consisting of a machine, manufacture, or composition of matter used in a manufacturing or other commercial process.” This defense takes effect immediately and therefore can be wielded against assertions of patents issued on or after September 16, 2011.

To be entitled to the defense, a defendant must show that, acting in good faith, it “commercially used the subject matter in the United States, either in connection with 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 commercial use must commence at least one year prior to either the effective filing date of the asserted patent or the date on which the invention claimed therein was otherwise disclosed to the public, if earlier. And the defense can only be asserted by those who performed or directed the commercial use, or their affiliates. Nevertheless, the Patent Act’s exhaustion provision is maintained and will benefit third parties who obtain a “useful end result” (“end product” in the current act) through the sale or other disposition of such end result by a person entitled to assert the defense. Moreover, the defense may only be transferred or licensed with the good faith transfer “of the entire enterprise or line of business to which the defense relates,” but the defense then becomes limited to uses occurring at the sites where the asserted invention was in use before the later of the effective filing date of the patent or of the assignment. Finally, the defense cannot be used for claims brought under patents that, at the time of invention, were owned or subject to an obligation of assignment to either an “institution of higher education” or a technology transfer organization whose primary purpose is to facilitate the commercialization of technologies developed by one or more such institutions of higher education.

Accordingly, an inventor who wishes to maintain the secrecy of an invention may now rely on the prior commercial use defense, without filing a patent application, to resist a claim of patent infringement asserted by another person or entity (other than an institution of higher learning).

## ***III. New procedures for challenging patents***

The Reform Act creates new mechanisms for challenging the validity of a patent, including by initiating proceedings before the USPTO’s Patent Trial and Appeal Board (“PTAB”), with provisions for limited discovery and an oral hearing. These new procedures are a substantial step toward creating the type of specialized “patent court” that has been proposed for years.

*Post-grant review.* The Reform Act creates an entirely new post-grant review procedure, allowing anyone other than the patent owner to challenge the validity of a newly granted or reissued patent, on essentially any statutory grounds. By contrast, reexamination proceedings under prior law permitted only challenges to a patent's novelty or non-obviousness. The Reform Act creates a limited nine-month window in which to initiate post-grant reviews and imposes a substantial threshold test: the petition must present information that, "if . . . not rebutted, would demonstrate that it is more likely than not that at least 1 of the claims challenged in the petition is unpatentable." A petition also may be granted if it "raises a novel or unsettled legal question that is important to other patents or patent applications."

Post-grant review is designed to be "adjudicative" rather than "examinational," and offers features that resemble a mini-trial. A three judge panel of the PTAB, rather than patent examiners, will conduct the review. Appeals will be made to the Court of Appeals for the Federal Circuit. Parties can take limited discovery, the extent of which will be set by regulation, and will have "the right to an oral hearing." The PTAB must issue a final determination within one year (subject to a six month extension for good cause). Unlike patent challenges in court that must be proven by clear and convincing evidence, the petitioner in a post-grant review need only establish the "proposition of unpatentability by a preponderance of the evidence." The patent owner is afforded one opportunity to amend his claims during the course of the post-grant review.

A petitioner for post-grant review must abide by its outcome: it cannot assert in any subsequent court action or in another proceeding before the PTO that the challenged patent is "invalid on any ground that the petitioner raised or reasonably could have raised during that post-grant review." No such estoppel applies when a petition fails to satisfy the threshold standard for initiating a post-grant review or if the parties reach a settlement while a review is pending. Further, a petitioner must choose its forum: it cannot seek post-grant review after initiating a civil action challenging the validity of the same patent. And if a party files such an action after petitioning for post-grant review, the suit will be automatically stayed unless the patent owner moves to lift the stay or counterclaims or files a new action alleging that the petitioner has infringed the patent.

The post-grant review procedure will take effect on September 16, 2012, but will apply only to patents with an effective filing date 18 months after enactment (March 16, 2013). Once in effect, post-grant reviews should provide an attractive option for challenging a patent's validity: they should offer a procedure that is more robust and wide-ranging than reexaminations under prior law, yet faster and less expensive than court challenges. And in contrast to civil actions that require proof of invalidity by clear and convincing evidence and may be decided by a jury, post-grant reviews will be adjudicated under the lower preponderance of the evidence standard by PTAB judges who are required by statute to be "persons of competent legal knowledge and scientific ability."

*Inter-partes review.* The Reform Act replaces the existing inter partes reexamination process with a new and much more robust procedure called “inter partes review,” which will become available on September 16, 2012. Inter partes review has nearly all of the procedural features of the post-grant review process described above, with two main differences: challenges are limited to assertions of anticipation and obviousness based on prior art, and the threshold test for initiating a review is “that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.” This new and more demanding standard (previously, a petitioner had only to raise “a substantial new question of patentability” with respect to any claim of the patent), coupled with the patent owner’s ability to respond to a petition before the USPTO Director decides whether to proceed with a review, may make inter partes reviews harder to initiate than reexaminations under current law, but more likely to succeed when they do occur.

By implementing these more robust procedures for challenging patents – with limited discovery, an opportunity for hearings before the PTAB and ambitious time limits – Congress evidently hopes to create a more attractive option than the current inter partes reexamination process, which was little used by practitioners. The period for inter partes review picks up where post-grant review ends: a party must wait nine months after the issuance of a patent, or until the conclusion of any post-grant review, to seek inter partes review. There is no outer time limit for initiating inter partes review, except that a party sued for infringing a patent cannot seek review of the patent more than one year after having been sued.

*Procedure for challenging business method patents.* The Reform Act adapts the new post-grant review procedure to address one of the thorniest questions in patent law: whether business methods are entitled to patents. Last year, in *Bilski v. Kappos*,<sup>2</sup> the Supreme Court declined to rule that business methods cannot be patented, though four justices would have so held, but it articulated a standard for patentability that many business methods likely would fail.

The Reform Act creates a review procedure for business method patents, which will come into effect on September 16, 2012, with the same procedural features and broad scope as the new post-grant review, enabling invalidity challenges on any statutory ground. Such petitions can be filed at any time, but only by a party sued for infringing a business method patent or “charged” with infringing the patent. The Reform Act defines “covered business method patent” somewhat narrowly to encompass only “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,” and it carves out “patents for technological inventions.” The program will expire after eight years, unless extended.

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<sup>2</sup> 130 S. Ct. 3218 (2010) (Kennedy, J.).

When a challenge to a business method patent is initiated, parties to any pending infringement action involving the patent can seek a stay of the action, the grant or denial of which will be immediately appealable to the Federal Circuit. The Reform Act sets out several factors to be considered, which together suggest that a stay ordinarily should be granted if a party sued for infringement promptly petitions for review and seeks a stay. The Reform Act thus gives parties accused of infringing a business method patent a potentially powerful tool for challenging the patent's validity at a far lower cost than full-bore litigation.

#### *IV. Tax strategy patents*

The Reform Act takes special aim against tax strategy patents. Effective immediately upon enactment on September 16, 2011, any strategy for reducing, avoiding, or deferring tax liability is deemed insufficient to differentiate a claimed invention from prior art. This provision does not, however, apply to inventions used *solely* (i) for preparing tax returns, or (ii) for financial management, to the extent that they are severable from any tax strategy or do not limit the use of any tax strategy by any taxpayer or tax advisor.

#### *V. Changes to patent litigation*

The Reform Act includes provisions directed to patent litigation which, though not major changes to the law, likely will prove significant in some cases.

*Prohibiting suits naming multiple defendants.* The Reform Act abolishes infringement suits naming multiple, unrelated parties as defendants in a single action. Such suits had been a common tactic among plaintiffs, especially non-patent practicing entities, often referred to as "patent trolls," who essentially sought to sue an entire industry. As of September 16, 2011, plaintiffs cannot join multiple parties as defendants unless they are selling the same accused product or process and questions of fact common to all defendants will arise in the action. Requiring suits to proceed individually likely will increase plaintiffs' costs, and also will subject plaintiffs to the risk that a finding of patent invalidity in one suit will have preclusive effects on subsequent suits.

*Willful infringement and advice of counsel.* The Reform Act provides that the failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or to present such advice to the court or jury, may not be used to prove that the defendant willfully infringed the patent or intended to induce infringement of the patent. This provision is consistent with current precedent concerning willfulness claims, and serves to confirm this rule in future cases. This amendment is effective as of September 16, 2012.

*Extension of federal jurisdiction.* The Reform Act provides for federal jurisdiction and removal jurisdiction in any action in which "any party" asserts a claim for relief under any federal statute relating to patents or copyrights, thus providing for jurisdiction based not only on claims stated in a complaint but also on counterclaims or cross-claims asserted by defendants. The Reform Act likewise provides for Federal Circuit

appellate jurisdiction based on both claims and compulsory counterclaims. This amendment applies to civil actions commenced on or after September 16, 2011.

The Reform Act introduces a number of important changes to patent law and practice. The provisions highlighted above and other aspects of the Reform Act undoubtedly will evolve as the USPTO and Courts apply these innovations to the patent landscape in the months and years ahead. If you have any questions, please feel free to contact any of your regular contacts at the firm or any of our partners or counsel listed under “Intellectual Property” in the “Our Practice” section of our website at <http://www.clearygottlieb.com>.

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