



## **Prepare your Business for Possible Changes to Patent Laws in 2011**

A pair of bills passing through the Senate and House of Representatives provide the best possibility for substantial patent law reform in recent years. Senate Bill S.23 (“The Patent Reform Act of 2011”) was approved by the Senate on March 8, 2011 on a 95-5 vote. The House of Representatives introduced its companion bill, H.R. 1249 (“The America Invents Act”), shortly afterward. With some amendments, H.R. 1249 was overwhelmingly approved by the House Judiciary Committee on June 1, 2011, for consideration by the House as a whole. Although the bill passed to the House differs from the one approved by the Senate, both bills cover similar topics that will likely appear in any eventual legislation and that could drastically change a company’s or inventor’s patent strategies. Barring an unforeseen roadblock, the long road to patent reform may actually become a reality in 2011.

First, both bills change U.S. priority from a “first to invent” system to a “first to file” system. Under existing law, the U.S. awards patent rights to the first person to actually conceive of an invention. Under the proposed change, the U.S. would change to a system consistent with many other countries where the first person to file for a patent is considered the inventor. Although the proposed bill does retain a form of the one-year grace period that has been available in the U.S., the change will nevertheless limit an inventor’s ability to delay filing for a patent. This is because under a “first to file” system, each day that goes by with a patent unfiled raises the likelihood that another person may file for a patent on a similar (or the same) invention, effectively preempting the inventor’s rights in that invention.

Other changes to the patent statutes are proposed to accommodate a change to the first to file system. To make it simpler to file patent applications quickly and mitigate risking surrender of patent rights, the bills also propose removing “best mode” as a basis for invalidating a patent. The “best mode” requirement obligates an inventor to disclose the preferred methods and structures embodying his/her invention in the patent application at the time it is filed; by removing this requirement, early filings are made possible in unpredictable arts, where a best mode may not yet be known at the time a patent application would otherwise be ready for filing. An exception to the first to file system is also included, which would prevent an unscrupulous individual from stealing an idea and beating its



inventor to the patent office. This exception provides for a “derivation proceeding” in which an inventor has a year from the issuance of a patent allegedly derived from his or her work to bring an action at the USPTO to resolve the derivation issue. However, this exception involves tight timing and procedural requirements and is not a catchall: it would not protect an inventor from another individual who developed a similar invention from filing for a patent, preempting later patent filings by the earlier inventor.

Second, to address a perceived decline in patent quality, the bills both include provisions that increase the ability of third parties to submit materials to the patent office during the examination of a patent application. These materials could include patents or publications, or could also include statements of the patent owner in court discussing the scope of a patent or prior art. Any such submission must include a statement of the relevance of the submission, and must be made both (1) before the patent application is allowed, and (2) before either the first rejection of the application or within six months of publication of the patent application, whichever is later.

Third, both bills include a post-grant review proceeding at the U.S. Patent and Trademark Office (“USPTO”), in which a third party can file a petition to cancel claims of a patent by showing that either it is more likely than not that the claim is unpatentable or that the patent raises an unsettled point of law that is likely to affect other patents or applications. The post-grant review proceeding is similar to patent opposition procedures available in other parts of the world, including Europe. It is also akin in some ways to the current *inter partes* reexamination process in the United States, but allows for introduction of additional issues beyond simply invalidity based on patents or patent publications. For example, expert opinions or other factual information could be introduced in such a proceeding. Both versions of the proposed law set time limits for opposing the grant of an issued patent (one year). And, in the case of post-grant review and *inter partes* reexamination, a party wishing to challenge a patent’s validity cannot employ either available patent office procedure if they also filed a concurrent lawsuit challenging the same patent (excluding invalidity counterclaims).

Beyond these generally-applicable provisions, a few special-purpose changes have been included in both versions of the bill which are intended to correct current perceived issues in patent law. For example, limits on false marking claims have been included in the draft bills, which would prevent individuals not directly damaged by the false marking from bringing a claim. Under current law, any person can sue a patentee who is falsely marking



products, and can claim half of a \$500 per occurrence statutory reward. Additionally, tax strategy patents are essentially banned, by preventing an application to rely on such an invention for patentability. The bills also provide for a transition to the post-grant review program for business method patents, in which an alleged infringer sued under a business method patent could challenge that patent in a post-grant proceeding even if the patent has been issued for more than a year.

Although Congress and many U.S. businesses are generally in favor of the pending bills and the legislative changes those bills provide, support for the bills is not unanimous. Some House members have objected to H.R. 1249 as giving the USPTO too much power to set its own fee rates and to spend the fees collected. These objections are based largely on budget-balancing concerns, because the bills would halt Congress's practice of diverting fees collected by the USPTO to offset deficits in other areas of the federal budget. Additionally, various small and start-up corporations are concerned that the bills raise initial legal costs and hurdles for obtaining a patent. These individuals and small companies often rely on delaying legal expenses and testing the market for their products before filing a patent application, a strategy that is adversely impacted by the "first to file" provisions of the pending legislation. However, the bills provide some favorable provisions for the "garage inventor". The bills establish the existence of a new "micro-entity", which provides for a 75% discount on filing fees for some individuals, including (1) inventors named on fewer than five previous applications and meet certain income requirements, or (2) inventors who work for and have assigned any rights in the subject invention to a state public institution.

Regardless of whether all of these items appear in any eventual legislation, the bills provide an indication of the direction and seriousness of patent reform efforts. In contrast to the previous efforts for patent reform, broad Congressional support for the current bills present the most likely chance for passage of patent reform in years. Because there is a good likelihood that patent reform will in fact become a reality in 2011, it is important for an inventor to assess his or her current patent filing strategies to determine how to accommodate these possible changes to the statutory landscape, and how to maximize his or her patent rights using procedural avenues that may become available.