

Intellectual Property/Legislative ADVISORY

March 18, 2011

Patent Reform Legislation Passes the Senate; House to Introduce Similar Bill this Month

On March 8, 2011, the U.S. Senate passed S. 23, the “America Invents Act” (AIA), by an overwhelming margin of 95 to 5. The AIA is cosponsored by Senate Judiciary Committee Chairman Patrick Leahy (D-VT) and would, if enacted, represent the most sweeping patent reform legislation since 1952. Senator Leahy’s latest effort to enact comprehensive patent reform legislation comes on the heels of failed attempts to pass similar reform legislation in the past three Congresses. However, with the White House strongly supporting the AIA, and House Judiciary Committee Chairman Lamar Smith (R-TX) praising the Senate’s passage of the AIA, there is renewed optimism that Congress may finally pass patent reform legislation this year. This advisory will provide a summary of the key provisions of the AIA, and identify the changes that have been made to the Senate Judiciary Committee bill since the Committee last reported patent reform legislation in 2009.

Procedurally, now that the Senate has acted, the consideration of patent reform legislation will shift to the House of Representatives. In a statement released the day the Senate passed the AIA, Congressman Smith said, “[T]oday’s vote in the Senate is a victory for American innovators who create businesses, generate jobs and drive economic growth.”¹ He also noted that the Senate bill would make “important changes to our patent system” and that “the House will introduce similar legislation this month.”²

In 2007, a comprehensive patent reform bill sponsored by Congressman Smith himself passed the House, but then became bogged down in the Senate. Given the similarities between the AIA and the previous Smith bill, there is greater reason now to believe that patent reform legislation could indeed be enacted. Although Congressman Smith has yet to release the details of his latest patent reform proposal, his call for similar legislation is buttressed by his belief that there is broad support among House members for the AIA’s provisions, including a first-inventor-to-file standard, a post-grant review process and third-party submission of prior art. Below we provide a brief summary of these and other key provisions in the AIA.

¹ Press Release, “House Committee on the Judiciary Chairman Lamar Smith, Chairman Smith Praises Senate Passage of Patent Reform; House to Introduce Similar Legislation This Month” (Mar. 8, 2011), <http://lamarsmith.house.gov/News/DocumentSingle.aspx?DocumentID=228316>.

² *Id.*

Summary of Key Provisions in the AIA

The following summarizes several of the most prominent provisions of the AIA:

First-to-File. The AIA would convert the present “first-person-to-invent” system to a system in which the first inventor to file a patent application on the invention would prevail. Such a provision has in the past been met with opposition by groups of solo inventors and other smaller inventive entities.

False Marking. The AIA would alter false patent marking law such that only the federal government could bring a lawsuit for the false marking penalty provided by 35 U.S.C. § 292(a), and would add a provision under which entities actually harmed by another’s false marking may bring suit for recovery. Specifically, former subsection 292(b) (which provided that “any person may sue for the [false marking] penalty ...”) would be stricken and replaced with the following: “Any person who has suffered a competitive injury as a result of a violation of this section may file a civil action in a district court of the United States for recovery of damages adequate to compensate for the injury.” This is expected to greatly curb the increasing number of false marking cases filed in view of the 2009 decision of the Court of Appeals for the Federal Circuit in *Forest Group, Inc. v. Bon Tool Co.* (which determined that the maximum fine for violation of the false marking statute should be applied for each article sold with false marking).

Derivation Proceedings. With the elimination of the need for interferences resulting from the switch to a “first-to-file” system, the AIA would replace the current Section 135 of the Patent Act with a provision for derivation proceedings. Under the new Section 135, a patent applicant who believes that an inventor named in an earlier application derived his or her invention from the applicant could institute a proceeding in the Patent and Trademark Office (PTO) seeking to have the other inventor’s claims refused or cancelled by the PTO. Such a proceeding must be instituted within one year after the first publication of the patent claim that is alleged to be the same or substantially the same as the earlier applicant’s claim.

Inter Partes Review. The AIA would revise the inter partes reexamination process by changing the threshold requirement to be met before the PTO may authorize such a review. Currently, a petitioner must show that there is a “substantial new question of patentability affecting any claim of the patent ...” 35 U.S.C. §312(a). Under the AIA, the PTO may not commence such a review unless there is a determination that “there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged ...” Also, inter partes review may not be instituted if (1) the petitioner or real party in interest has filed a civil action challenging the validity of a claim of the patent, or (2) the petition is filed more than six months after the date on which the petitioner, real party in interest or its privy is served with a complaint alleging infringement of the patent. Also, in view of the new post-grant review proceedings discussed below, the AIA would limit the period in which such petitions may be filed to after the later of (a) nine months after the grant or reissue of patent; or (b) the date of termination of post-grant review, if such a post-grant review were instituted.

Post-Grant Review. The AIA would provide a single nine-month period after the grant of a patent or issuance of a reissue patent during which a challenger may file a petition to institute a post-grant review of the patent's validity by the PTO. The petition may request cancellation of one or more of the patent's claims based not only on prior art grounds (i.e., anticipation or obviousness), but also based on defects in the patent's specification as provided in Sections 112 or 251 the Patent Act. For such a post-grant review to commence, the information presented in the petition must demonstrate, if not rebutted, that it is more likely than not that at least one of the challenged claims is unpatentable. A post-grant review may not be instituted or maintained if the petitioner or real party in interest has filed a civil action challenging the validity of a claim of the patent.

Patent Trial and Appeal Board. With the elimination of interferences by a first-to-file system, the AIA would effectively rename the current Board of Patent Appeals and Interferences (BPAI) to the Patent Trial and Appeal Board (PTAB). As with the BPAI, the PTAB would consist of the director of the PTO, deputy director, commissioner for patents, commissioner for trademarks and administrative patent judges. As with the BPAI, the PTAB would review appeals of adverse decisions of examiners and appeals of reexaminations, and similarly, the PTAB would conduct derivation proceedings, post-grant reviews and inter partes reviews. Each action would be heard by at least three members of the PTAB, who would be designated by the director.

Preissuance Submissions by Third Parties. Under the AIA, third parties would be permitted to submit any patent, published patent application or other printed publication of potential relevance to the examination of an application for patent if the submission follows certain criteria. While the third party would not be able to argue in front of the examiner, pre-issue submissions would present a useful opportunity for third parties to narrow or invalidate pending patent claims, rather than wait until the application fails on its own or issues as a patent. This provision would not take effect until one year after the date of enactment of the AIA.

Tax Strategies. The AIA provides that any strategy for reducing, avoiding or deferring tax liability, whether known or unknown at the time of invention or application for patent, shall be deemed insufficient to differentiate a claim from the prior art.

Clarification of Jurisdiction. The AIA would amend 28 U.S.C. § 1338(a) to clarify that no state court shall have jurisdiction over any claim for relief arising under an act of Congress relating to patents, plant variety protection or copyrights.

Review of Business Method Patents. The AIA would establish, within one year of enactment, a transitional post-grant review proceeding for review of the validity of covered business method patents. A person may file a petition if that person or his real party in interest has been sued for infringement of the business method patent or has been charged with infringement of the business method patent. If this review fails, the petitioner will not be able to assert in a civil action or before the United States International Trade Commission that a claim is invalid on any ground raised during a transitional proceeding that resulted in a final written decision.

Patent and Trademark Office Funding. The AIA would require that fees collected under the Patent Act and the Trademark Act be deposited into a “revolving fund.” The fund would be available for use by the director of the PTO without fiscal year limitation. The PTO would also be required to provide an annual report to Congress not later than 60 days after the end of each fiscal year. Such an arrangement would likely permit the PTO to better retain collected fees and to operate relatively autonomously.

Differences from Prior Patent Reform Bills: Removal of Litigation Provisions

Earlier patent reform bills, including the Senate Judiciary Committee bill reported in 2009 and a parallel bill presented to the House Judiciary Committee, included several provisions dealing with contentious issues related to patent litigation, most of which were removed from the AIA. Unlike other recent patent reform bills, the AIA does not include provisions related to the following:

Venue: Both 2009 bills included provisions restricting the venue in which patent infringement suits could be brought, which would have limited the practice of bringing actions in venues that are known to be particularly patentee-friendly. Those venue provisions do not appear in the AIA.

Claim Construction: Both 2009 bills addressed the relatively high rate of reversal by the Court of Appeals for the Federal Circuit on claim construction issues, and the resulting inefficiency of reversing claim construction after trial. The prior bill provided the district courts with discretion to grant immediate interlocutory appeals to the Federal Circuit of claim construction rulings. These provisions do not appear in the AIA.

Willful Infringement: Both 2009 bills greatly limited the ability of patentees to assert willful infringement of their patents. While codifying the Federal Circuit’s “objective recklessness” standard, expressed in *In re Seagate*, both bills also prevented patentees from asserting willfulness until after the patent has been found to be not invalid, enforceable and infringed. While the AIA would codify the Federal Circuit’s opinion in *Knorr-Bremse* that an accused infringer’s failure to offer evidence that it relied on an opinion of counsel does not give rise to an adverse inference with respect to willfulness, the AIA would not impose those more stringent requirements of the 2009 bills.

Damages: One of the most contentious subjects of prior reform attempts involved efforts to rein in damages awards in patent infringement litigation. As introduced, both 2009 bills called for application of the “entire market value rule” upon a showing to the court that the invention’s contribution over the prior art is the “predominant basis for market demand.” Alternatively, if such a showing were not made, then damages would be based on a showing of prior non-exclusive licenses under the patent. If neither of those showings were made, then damages would be based on only that portion of the economic value of the product or process that is attributable to the invention. Even though it was the subject of much debate in the Senate Judiciary Committee and the damages provisions of the bill that was reported from that Committee in 2009 were paired down significantly, in the AIA, these damages provisions are not present at all.

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