



## The Leahy-Smith America Invents Act

September 27, 2011

### SUMMARY

On September 16, 2011, President Obama signed into law the Leahy-Smith America Invents Act, H.R. 1249, 112<sup>th</sup> Cong. (2011) (“Reform Act”). The Reform Act has been heralded by its proponents as a critical reform of the U.S. patent system. Much has been written about the Act, but in this summary we focus on the issues most relevant to patent litigants and attempt to quantify the intended, and unintended, consequences of the Reform Act.

As set forth in more detail below, the America Invents Act:

- adopts a first-to-file standard;
- expands the prior use defense;
- restricts joinder and consolidation of cases in multiple-defendant patent suits;
- extends the Federal Circuit’s holding in *Seagate* regarding attorney opinions to active inducement;
- establishes several new review procedures for challenging the validity of issued patents;
- establishes a supplemental examination procedure by which patentees can cure defects in a patent’s prosecution record;
- provides for notice through virtual marking;
- eliminates *qui tam* false marking suits; and
- eliminates the best mode defense.

### FIRST-TO-FILE

The most-sweeping change adopted by the Reform Act is a shift from a first-to-invent to a first-to-file system. The first inventor to file, subject to a grace period described in more detail below, will be entitled to a patent regardless of another’s prior invention.<sup>1</sup>

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<sup>1</sup> See Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 3 (describing new § 102).

The first-to-file regime – and consequent modifications to the definition of “prior art” discussed below – impacts applications with an effective filing date on or after March 16, 2013, eighteen months from the enactment of the Reform Act.<sup>2</sup> During this eighteen-month period, the PTO is required to produce reports to Congress regarding the effect of the new law, including a study examining the effect on small businesses.<sup>3</sup> According to the legislative history, this eighteen-month period affords Congress “an opportunity to act on the conclusions or recommendations of the [PTO] . . . before first-to-file rules are implemented.”<sup>4</sup>

The Reform Act also creates a grace period, during which a patentee’s disclosures about his or her invention will not act as prior art that potentially invalidates the patent. Moreover, these early disclosures may serve to inoculate the patent from third-party prior art during the period from the disclosure to the patent’s effective filing date (up to one full year).<sup>5</sup> To receive the benefit of the grace period, a patentee (or one who obtained the subject matter from the patentee) must “disclose” the claimed invention.<sup>6</sup> Unfortunately, the Reform Act does not define what constitutes “disclosure” sufficient to trigger the grace period; the meaning of the term will likely be clarified in future litigation.

But the amendments may significantly impact how and when companies and individual inventors disclose inventive technologies. For example, it has been widely speculated that a first-to-file system will cause a rush to the patent office that may result in poor-quality patents. The Reform Act’s grace period also creates incentives for inventors to make prompt and detailed disclosures of inventions to secure the benefit of the prior art grace period. So, while the first-to-file system has been promoted as a means to increase patent certainty and reduce costly litigation over inventorship determinations, there is a risk that the increased urgency to disclose one’s invention and to file with the PTO could simply shift costs as parties litigate whether or not hastily-crafted disclosures, made at different points in time, support the claims in dispute.

#### A NEW DEFINITION OF PRIOR ART

The Reform Act’s substantive modifications to prior art definitions, while not as widely publicized as the move to a first-to-file system, may have a more pronounced impact on litigants. Under the Reform Act, the effective filing date (not the date of invention) becomes the primary reference point for identifying prior art. This new prior art consists of patents and printed publications that describe the claimed invention or instances where the claimed invention was in public use, on sale, “or otherwise available to the public before the effective

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<sup>2</sup> *Id.*, § 3(n)(1).

<sup>3</sup> *Id.*, §§ 3(l)-(m).

<sup>4</sup> 157 Cong. Rec. S1373 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>5</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 3 (describing new § 102(b)).

<sup>6</sup> *Id.* (describing new § 102(b)(1)).

filing date.”<sup>7</sup> Thus, public availability is now a prerequisite<sup>8</sup> for all prior art. In addition, the Reform Act removes geographic limitations; it is no longer a requirement that knowledge, use, or sales occur in the U.S.<sup>9</sup>

Debate on the floor of Congress raised concerns that differences in the treatment of the terms “disclosure,” as used in the grace period provision described in the prior section, and “public availab[ility],” as used in the prior art provision, might lead to situations where an inventor triggers a prior art bar without obtaining the benefit of the grace period – that is, the inventor’s description of the invention is sufficiently detailed and public to constitute prior art but insufficient to constitute a “disclosure” triggering the grace period.<sup>10</sup> On balance, the legislative history strongly suggests that any “disclosure” by an inventor that qualifies as prior art would necessarily trigger the grace period.<sup>11</sup> What degree of disclosure below this threshold qualifies to trigger the grace period remains to be seen and will likely be a subject of future litigation.<sup>12</sup>

Read together, the first-to-file and prior art amendments will simplify validity inquiries by removing inventorship from the equation, but, otherwise, the impact on pending and future litigations may be limited. Litigants will continue to search for prior art that pre-dates old section 102(b)’s statutory bar date, and such art will remain good art after the effective date of the amendment, so long as the new requirement for public availability is also met.

Inventors and assignees looking to take advantage of the amendments must be conscious of how their decisions are impacted by international laws. Pre-filing disclosure can bar the inventor from seeking a patent in many foreign patent systems.<sup>13</sup> So, in some cases, prompt and detailed public disclosures – as the Reform Act seems to encourage – may adversely impact an inventor’s rights to seek patent protection in foreign jurisdictions. International companies seeking to patent inventions in multiple jurisdictions must carefully weigh the potential costs of losing international protection against the benefits of the grace period awarded under the

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<sup>7</sup> *Id.* (describing new § 102(a)(1)).

<sup>8</sup> 157 Cong. Rec. S5431 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl).

<sup>9</sup> *See* 35 U.S.C. §§ 102(a)-(b).

<sup>10</sup> 157 Cong. Rec. H4430 (daily ed. June 22, 2011) (statement of Rep. Lofgren).

<sup>11</sup> 157 Cong. Rec. S5431 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl).

<sup>12</sup> *See* 157 Cong. Rec. S1496 (daily ed. Mar. 9, 2011) (statement of Sen. Hatch) (explicitly recognizing the possibility that 102(b) would be triggered and 102(a) would not).

<sup>13</sup> In fact, earlier attempts at patent reform included a provision that made the move to a first-to-file standard contingent on other nations’ adopting a grace period substantially similar to the proposed U.S. version. *See* Patent Reform Act of 2009, H.R. 1260, 111th Cong. § 2(k)(1) (2009) (introduced in House).

Reform Act. It may be that the best method of securing an early U.S. filing date for companies and inventors seeking international patent protection is to file a provisional patent application.<sup>14</sup>

## JOINDER OF PARTIES

The Reform Act limits joinder of unrelated accused infringers in patent actions.<sup>15</sup> Plaintiffs may now sue multiple defendants in a single action only if (i) a cause of action arises out of the same “transaction or occurrence,” and (ii) questions of fact common to all defendants or counterclaim defendants will arise in the action.<sup>16</sup> It is no longer sufficient that the plaintiff asserts infringement of the same patent by multiple defendants.<sup>17</sup> Further, the statute explicitly prohibits consolidating cases for trial where the requirements for joinder are not met.<sup>18</sup>

This provision directly targets the common practice of treating as codefendants “parties who make completely different products and have no relation to each other.”<sup>19</sup> Although the statute mostly tracks the language of the Federal Rules of Civil Procedure,<sup>20</sup> the specific exclusion of joinder based solely on a common allegedly infringed patent and the prohibition of consolidating cases for trial may make litigation for plaintiffs much more difficult and expensive. Plaintiffs must now file individual suits targeting accused infringers with distinct infringing products or services, although it is likely creative plaintiffs and cooperative courts may find ways to stretch the understanding of “common issues of fact” to dilute the effect of the new rule. If multiple suits are filed in the same jurisdiction, it is likely the presiding court will coordinate (but not consolidate) the related cases for pretrial purposes, which should further reduce the economic impact of the new rule on plaintiffs. Plaintiffs still must be mindful of the risk of successful transfers and other procedural strategies that defendants may employ to increase plaintiffs’ costs.

While plaintiffs’ suits against unrelated “horizontal” competitors are likely to be limited in this manner, they may still be able to sue multiple “vertically-related” defendants. For example, chip manufacturers might be combined with device makers who use the chips, along with retailers who sell the devices incorporating the chips. In addition, having a broad system or method claim that requires multiple actors jointly to infringe the patent may allow a plaintiff to argue that the “same transaction” and “common issues of fact” requirements are met and to

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<sup>14</sup> See 157 Cong. Rec. S1369 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>15</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 19 (describing new § 299(a)).

<sup>16</sup> *Id.* (describing new §§ 299(a)(1)-(2)).

<sup>17</sup> *Id.* (describing new § 299(b)).

<sup>18</sup> *Id.* (describing new § 299(a)).

<sup>19</sup> 157 Cong. Rec. H4426 (daily ed. June 22, 2011) (statement of Rep. Goodlatte).

<sup>20</sup> See Fed. R. Civ. P. 20(a)(2) (Permissive Joinder of Parties).

bring a multi-defendant suit in those cases where the allegations otherwise meet the existing limitations on joint and indirect infringement claims.

If plaintiffs choose to bring individual cases against a group of defendants based on the same patent, there is an increased risk of multiple, conflicting *Markman* rulings issued from different judges in different districts. While some courts have treated prior *Markman* rulings as binding in subsequent matters, collateral estoppel turns on a multi-factor analysis, and the law has not been uniformly applied.<sup>21</sup> Furthermore, as a procedural, non-patent issue, collateral estoppel is determined by regional circuit law and cannot be easily unified in the Federal Circuit.<sup>22</sup>

### ATTORNEY OPINIONS

The Reform Act establishes that failure of an infringer to obtain advice of counsel with respect to any allegedly infringed patent, or failure to present such evidence to the jury, may not be used to prove willful infringement or intent to induce infringement.<sup>23</sup> This provision codifies the Federal Circuit's holding in *Seagate*<sup>24</sup> with respect to willfulness and abrogates the Federal Circuit's decision in *Broadcom v. Qualcomm*<sup>25</sup> with respect to active inducement. This provision will apply to any patent issued on or after September 16, 2012, one year from the date of enactment.<sup>26</sup> This change eliminates one of a patent holder's more potent threats in patent litigation and will likely have a significant, adverse commercial impact on attorneys who specialize in preparing noninfringement and invalidity opinions.

### PRIOR COMMERCIAL USE DEFENSE

An accused infringer, prior to the Reform Act, could claim a "prior use" defense against business method patent claims if the accused party could establish that it used the patented method before the patent's filing date.<sup>27</sup> Under the Reform Act, this defense extends to all

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<sup>21</sup> See *RF Del., Inc v. Pac. Keystone Techs., Inc.*, 326 F.3d 1255, 1261 (Fed. Cir. 2003) (holding that, in patent infringement cases, regional circuit law determines the collateral estoppel effect of *Markman* rulings); see also, e.g., *Amgen, Inc. v. Hoffmann-La Roche Ltd.*, 494 F. Supp. 2d 54, 60 (D. Mass. 2007) (applying collateral estoppel to prior claim construction ruling); *Powervip, Inc. v. Static Control Components, Inc.*, 2011 WL 2669059, slip op. at \*2-6 (W.D. Mich. July 6, 2011) (declining to apply collateral estoppel to prior claim construction ruling); Rachel C. Hughey, *RF Delaware, Inc. v. Pacific Keystone Technologies, Inc.: The Federal Circuit Has Finally Spoken on Collateral Estoppel of Claim Interpretation*, 20 Santa Clara Computer & High Tech. L.J. 293 (2003) (noting lack of uniformity among courts' application of collateral estoppel to claim interpretation).

<sup>22</sup> See *RF Del.*, 326 F.3d at 1261.

<sup>23</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 17 (describing new § 298).

<sup>24</sup> *In re Seagate Tech. LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007).

<sup>25</sup> *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 699 (Fed. Cir. 2008).

<sup>26</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, §35.

<sup>27</sup> See 35 U.S.C. 273.

processes, machines, manufactures, or compositions of matter used in a manufacturing or other commercial process that would otherwise infringe a claimed invention.<sup>28</sup> This provision applies to any patent issued on or after September 16, 2011, the date of enactment.<sup>29</sup>

To qualify for the expanded defense, the prior commercial use must have occurred at least one year before the earlier of (i) the effective filing date or (ii) an inventor's disclosure that establishes a prior art grace period.<sup>30</sup> The defense does not provide a general license to the infringed patent; it merely provides a right to continue practicing the qualifying commercial use, including the right to increase quantity or volume of use and to make improvements that do not infringe additional specifically claimed subject matter.<sup>31</sup> The party asserting the defense has the burden of establishing the defense by clear and convincing evidence.<sup>32</sup>

Obviously, the expanded defense can be a powerful tool for accused infringers in specific circumstances. But it will also impact an inventor's decision whether or not to protect innovations through trade secret or patent protection. At least for those inventions that are easily concealed (*e.g.*, methods), the new "prior use" defense creates incentives for inventors to keep inventions secret (protecting innovations as trade secrets) rather than to disclose inventions (seeking patent protection). While this would seem to cut against the underlying purpose of the patent system – to promote the disclosure of inventions – the shift toward greater secrecy appears to have been intended. Specifically, Senator Jon Kyl promoted the expansion of the commercial use defense as a means of making secrecy an attractive alternative for manufacturers who would otherwise be forced to choose between two undesirable paths: disclosing innovative methods – and gaining the protection of a patent right that is not easily policed – and being prohibited from using a prior invention by someone who obtains a later patent on the technology.<sup>33</sup>

#### POST-GRANT REVIEW AND *INTER PARTES* REVIEW

In addition to making substantive changes to the patent laws, the Reform Act introduces four new post-issuance review procedures, including post-grant review and *inter partes* review. *Ex parte* reexamination is left intact. These post-issuance review proceedings were designed to

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<sup>28</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 5 (describing new § 273(a)).

<sup>29</sup> *Id.*, § 5(c).

<sup>30</sup> *Id.*, § 5 (describing new § 273(a)).

<sup>31</sup> *Id.* (describing new § 273(e)(3)).

<sup>32</sup> *Id.* (describing new § 273(b)).

<sup>33</sup> 157 Cong. Rec. S5430 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl); *see also id.* at S5426 (statement of Sen. Blunt).

minimize litigation costs and increase certainty by offering efficient alternatives to litigation.<sup>34</sup> These provisions take effect on September 16, 2012, one year from the date of enactment.<sup>35</sup>

Some features of these new post-issuance proceedings sharply diverge from current reexamination practice, presenting traps for the unwary. For example, post-grant review and *inter partes* review cannot be instituted by a party that has filed a declaratory judgment action challenging the validity of a claim of the patent in court,<sup>36</sup> though a counterclaim asserting invalidity does not fall under this provision.<sup>37</sup>

Post-grant review allows any person to challenge the validity of a patent within nine months of the patent's issuance under any invalidity theory.<sup>38</sup> Formerly, a party seeking to initiate reexamination was required to show that cited prior art raised "a substantial new question of patentability."<sup>39</sup> Under the newly adopted post-grant review statute, a party challenging the validity of a patent must show that information contained in its petition, if not rebutted, would demonstrate that it is "more likely than not that at least 1 of the claims challenged" is unpatentable.<sup>40</sup>

Post-grant reviews present a potentially powerful new tool to challenge an issued patent, but the narrow window for filing requires parties to be vigilant for new patents. The business reality is that post-grant reviews may not be widely used. The daunting task of analyzing potential threats from thousands of patents as they issue may prove to be too costly to sustain and may increase the risk of willfulness claims. Rather, companies are likely to use post-grant reviews in a targeted fashion, focusing their time and money on monitoring emerging patent portfolios of strategic competitors.

*Inter partes* review replaces *inter partes* reexamination and applies to all issued patents, not merely those issued on or after November 29, 1999, as in the case of *inter partes* reexamination. *Inter partes* review is similar to *inter partes* reexamination, but there are several new features that will change post-issuance *inter partes* practice. For example, *inter partes* review allows the patent

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<sup>34</sup> *America Invents Act: Hearing Before the Subcomm. on Intellectual Property Competition, and the Internet of the H. Comm. On the Judiciary*, 112th Cong. 45 (2011) (statement of David J. Kappos, Undersecretary of Commerce for Intellectual Property and Director, U.S. Patent and Trademark Office); 157 Cong. Rec. H4425 (daily ed. June 22, 2011) (statement of Rep. Goodlatte).

<sup>35</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, §§ 6(c)(2)(A) & (f)(2)(A).

<sup>36</sup> *Id.*, § 6 (describing new §§ 315(a)(1) & 325(a)(1)).

<sup>37</sup> *Id.* (describing new §§ 315(a)(3) & 325(a)(3)).

<sup>38</sup> *Id.* (describing new § 321(c)).

<sup>39</sup> 35 U.S.C. § 303(a).

<sup>40</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 6 (describing new § 324).

owner to respond to the petition and explain why the *inter partes* review should not go forward,<sup>41</sup> whereas, in an *inter partes* reexamination proceeding, a response by the patentee is only allowed after the examiner institutes reexamination.<sup>42</sup>

Additionally, unlike *inter partes* reexamination, a petition for *inter partes* review may only be filed after the later of the termination of a post-grant review or nine months following issuance of the patent.<sup>43</sup> If the petitioner is subject to an action alleging infringement of a patent, *inter partes* review of that patent must be initiated within one year of service of the complaint alleging infringement.<sup>44</sup> As with *inter partes* reexamination, a petitioner challenging validity under *inter partes* review is limited to sections 102 and 103 of the Patent Act and to prior art consisting of patents and printed publications.<sup>45</sup> But *inter partes* review introduces a new burden of proof to institute review that takes the place of the old “substantial new question of patentability” standard. A petitioner under *inter partes* review must show that the information presented in his or her petition, taken together with any response from the patentee, establishes that there is a “reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.”<sup>46</sup>

Post-grant review and *inter partes* review have several common features. In both proceedings, limited discovery is available.<sup>47</sup> The ultimate burden in each proceeding is on the petitioner to show invalidity by a preponderance of the evidence.<sup>48</sup> If the post-grant review or *inter partes* review results in a final written decision, the petitioner will be estopped from asserting invalidity before the PTO, ITC, or in a federal court on any basis that was raised or that reasonably could have been raised during the review that led to the final decision.<sup>49</sup>

The two new review provisions impose higher initial burdens on the party challenging a patent, although the weight of the additional burdens is unclear. The legislative history indicates that the higher burdens were meant to impose a meaningful threshold in order to preserve the

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<sup>41</sup> *Id.* (describing new §313).

<sup>42</sup> 35 U.S.C. §§ 312 & 314.

<sup>43</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 6 (describing new § 311(c)).

<sup>44</sup> *Id.* (describing new § 315(b)).

<sup>45</sup> *Id.* (describing new § 311(b)).

<sup>46</sup> *Id.* (describing new § 314(a)).

<sup>47</sup> *Id.* (describing new §§ 316(a) & 326(a)).

<sup>48</sup> *Id.* (describing new §§ 316(e) & 326(e)).

<sup>49</sup> *Id.* (describing new §§ 315(e) & 325(e)).



PTO's resources and to weed out marginal challenges.<sup>50</sup> During the legislative process, Senator Kyl noted that the *inter partes* review's "reasonable likelihood" standard is used in evaluating whether a party is entitled to a preliminary injunction and "effectively requires the petitioner to present a prima facie case justifying a rejection of the claims of the patent."<sup>51</sup> Senator Kyl also noted that Congress raised the burden for post-grant review proceedings to a "more likely than not" standard because more extensive discovery is available and because a higher threshold helps ensure that petitioners will not use these procedures to launch "fishing expeditions."<sup>52</sup> To prevent a rush of *inter partes* reexamination petitions during the interim period while the PTO transitions from *inter partes* reexamination to *inter partes* review, the Reform Act also increases the burden for initiating *inter partes* reexaminations to the "reasonable likelihood" standard.<sup>53</sup>

These new post-issuance review procedures have the potential to shift a significant number of validity disputes from the federal courts to the PTO. Benefits of these alternative procedures include (i) cost savings, (ii) a lower overall burden of proving invalidity, and, (iii) at least for post-grant review, a new opportunity to challenge an issued patent based on any invalidity theory. But these post-issuance reviews also create compressed timelines, regulatory uncertainty, and estoppel effects that caution against their use.

Perhaps the greatest disincentive to using these new post-issuance procedures is the robust estoppel effect provided for in the Reform Act. A petitioner that initiates a review that results in a final determination will be estopped from raising any defense that was raised or could have been raised during the review. For post-grant review, which does not restrict the grounds on which a petitioner may assert invalidity, this could be particularly costly. Nonetheless, some accused infringers may be willing to accept estoppel if it comports with their strategic objectives. For instance, where a party is reluctant to argue both infringement and invalidity theories during trial for fear of confusing the jury – and chooses to pursue only a non-infringement theory in court – there may be little downside in accepting the PTO decision on the validity of the asserted patents. Or, in cases with joint-defense groups, a co-defendant may choose to challenge the validity of the asserted patents in the PTO while other defendants preserve their rights to argue invalidity in federal court.<sup>54</sup>

Notably, the Reform Act only describes these new review proceedings in broad strokes, and it is unclear how they will operate in practice. For example, the Reform Act requires post-grant

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<sup>50</sup> See *Crossing the Finish Line on Patent Reform: What Can and Should Be Done: Hearing Before the Subcomm. On Intellectual Property, Competition, and the Internet of the H. Comm. On the Judiciary, 112th Cong. 45* (2011) (statement of Judge Paul Michel (Ret.), former Chief Judge, U.S. Court of Appeals for the Federal Circuit); 157 Cong. Rec. S1041 (daily ed. Mar. 1, 2011) (statement of Sen. Kyl).

<sup>51</sup> 157 Cong. Rec. S1375 (daily ed. Mar. 8, 2011) (statement of Sen. Kyl).

<sup>52</sup> See *Id.*

<sup>53</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 6(c)(3).

<sup>54</sup> For reasons discussed above, the Reform Act will reduce the instances of multi-defendant litigation.

reviews to provide for limited discovery “directly related to factual assertions advanced by either party in the proceeding” and sanctions for abuse of discovery – but more defined boundaries are not set.<sup>55</sup> The outcome of a challenge based on patentability or prior public availability may rest heavily on factual determinations. To the extent both patentee and third-party discovery through documents and deposition testimony is available, the discovery process could be outcome-determinative. If, however, a weak discovery process is implemented in the newly adopted review proceedings, accused infringers who challenge the validity of patents through the PTO may be prejudiced if they are later estopped from exercising the right to challenge the patents in court, where broader discovery is permitted. PTO regulations, to be released within the year, may help clarify some of the ambiguities inherent in the Reform Act.

Beyond these pitfalls, there is always the risk of adding to the layers of bureaucracy. Rather than serve as a low-cost alternative to litigation, companies may find that these out-of-court mechanisms only serve to increase the cost of challenging or defending patents by opening up new fronts in separate proceedings. In addition to fighting patent disputes in federal courts, companies may now attempt to hamper competitors by challenging patents as they issue, a tactic which could prove costly and time consuming.

#### **TRANSITIONAL PROGRAM FOR BUSINESS METHOD PATENT REVIEW**

In addition to post-grant reviews and *inter partes* reviews, the Reform Act creates a special transitional program for business method patent review designed to address the perceived problem of low-quality business method patents.<sup>56</sup> Reviews under this provision employ largely the same standards and procedures as a post-grant review.<sup>57</sup> This transitional program is limited to “covered business method patents,” defined as patents that claim a method or apparatus for performing operations “used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological inventions.”<sup>58</sup> This provision is only available to a petitioner who has been sued or charged with infringement of a business method patent.<sup>59</sup> The transitional program for business method patent review takes effect on September 16, 2012 – one year from the date of enactment – and lasts for eight years.<sup>60</sup>

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<sup>55</sup> See Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 6 (describing new § 326).

<sup>56</sup> 157 Cong. Rec. S5428 (daily ed. Sept. 8, 2011) (statement of Sen. Coburn).

<sup>57</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 18(a)(1).

<sup>58</sup> *Id.*, § 18(d)(1).

<sup>59</sup> *Id.*, § 18(a)(1)(B).

<sup>60</sup> *Id.*, §§ 18(a)(2)-(3).

The term “covered business method patent” is not well defined in the Reform Act, and this will likely be a contested issue. While a “covered business method patent” is limited to a patented method or product used in connection with a “financial product or service,” it is not clear whether this limits the provision to the financial services industry. The legislative history suggests that the statute was intended to have broader application. As Senator Charles Schumer stated, “[a]ny business that sells or purchases goods or services ‘practices’ or ‘administers’ a financial service by conducting such transactions.”<sup>61</sup>

The meaning of the exclusion for “technological inventions” is also likely to be contested. Although the Reform Act requires the PTO to issue regulations for determining whether a patent is a technological invention, the legislative history provides some initial guidance.<sup>62</sup> Specifically, Senator Tom Coburn noted that “[p]atents for technological inventions are those patents whose novelty turns on a . . . technical problem which is solved with a technical solution.”<sup>63</sup> In other words, a patent is not exempted from this provision merely because it recites some technical feature; the recited technology must also supply the innovative aspect of the invention.<sup>64</sup> This focus on the “technicality” of the claimed method appears to introduce an element for patentability that was recently rejected in European patent examinations.<sup>65</sup> Despite Congress’s assurance that the Reform Act is not intended to amend or construe section 101 of the Patent Act (setting forth what is patentable subject matter), litigants may argue that the Reform Act singles out business method patents for greater scrutiny. This issue may also be the subject of future litigation.

## SUPPLEMENTAL EXAMINATION

The Reform Act creates a new post-issuance procedure for patentees that can be used to consider, reconsider, or correct information believed to be relevant to the patent.<sup>66</sup> If the Director concludes that a substantial new question of patentability is present, a reexamination will be ordered.<sup>67</sup> The statute also provides that “[a] patent shall not be held unenforceable on the basis of conduct relating to information that had not been considered, was inadequately considered, or was incorrect in a prior examination . . . if the information was considered . . . during a supplemental examination of the patent.”<sup>68</sup> Patentees cannot avail themselves of this

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<sup>61</sup> 157 Cong. Rec. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer).

<sup>62</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 18(d)(2).

<sup>63</sup> 157 Cong. Rec. S5428 (daily ed. Sept. 8, 2011) (statement of Sen. Coburn).

<sup>64</sup> *Id.*

<sup>65</sup> See, Patrick King et al., *The Confluence of European Activism and American Minimalism: “Patentable Subject Matter” After Bilski*, 27 Santa Clara Computer & High Tech L.J. 247, 256-57 (2011).

<sup>66</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 12 (describing new § 257(a)).

<sup>67</sup> *Id.* (describing new § 257(b)).

<sup>68</sup> *Id.* (describing new § 257(c)(1)).

exemption after allegations of misconduct have been pled with particularity and filed in court proceedings.<sup>69</sup> In other words, once a defendant alleges that certain conduct constitutes inequitable conduct, the patentee loses the ability to cure the defect through a supplemental examination proceeding. The exemption also is not available in patent enforcement actions filed before the supplemental examination is concluded. Thus, a patentee seeking to benefit from the inequitable conduct exemption must preempt any allegations by a defendant and postpone any attempt to enforce the patent until the supplemental examination proceedings are concluded. The supplemental examination provision takes effect on September 16, 2012, one year from the date of enactment.<sup>70</sup>

According to its supporters, supplemental examination was designed to remedy the problem of minor and inadvertent errors in applications that create the risk of expensive and unpredictable inequitable conduct litigation.<sup>71</sup> Others have cautioned that supplemental examination, together with the exemption it provides against inequitable conduct, could be used as a “get out of jail free card” by those who deceive the PTO.<sup>72</sup>

Plaintiff-patent owners approaching litigation should consider using the newly created supplemental examination procedure to correct any issues that may have arisen during the initial prosecution. The strategy, however, is not without risk. If, during the course of a supplemental examination, the Director becomes aware of material fraud on the PTO, the Director may cancel the affected claims (or take any other action he or she is authorized to take) and refer the matter to the Attorney General for possible criminal prosecution.<sup>73</sup>

## VIRTUAL MARKING

The Reform Act provides that the marking statute may now be satisfied by including the word “patent” or “pat.” on a patented article together with an address for a website that associates the patented article with the number of the patent.<sup>74</sup> This provision applies to any case that was pending as of September 16, 2011, the date of enactment.<sup>75</sup>

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<sup>69</sup> *Id.* (describing new § 257(c)(2)).

<sup>70</sup> *Id.*, § 12(c).

<sup>71</sup> 157 Cong. Rec. S5319 (daily ed. Sept. 6, 2011) (statement of Sen. Kyl).

<sup>72</sup> 157 Cong. Rec. E1208 (daily ed. extensions June 24, 2011) (statement of Rep. Waxman).

<sup>73</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 12 (describing new § 257(e)).

<sup>74</sup> *Id.*, § 16 (describing § 287(a) as amended).

<sup>75</sup> *Id.*, § 16(a)(2).

## FALSE MARKING CLAIMS

The Reform Act removes the *qui tam* provision from the false marking statute and restricts standing and damages of individual plaintiff suits to actual damages.<sup>76</sup> Improperly marking a product with a patent that previously covered that product but has since expired is no longer a violation of the statute.<sup>77</sup> This change will effectively eliminate the recent phenomenon of plaintiffs' firms bringing suits based on recently expired patents or on behalf of companies that have experienced no economic harm.<sup>78</sup>

## BEST MODE DEFENSE

The Reform Act amends the Patent Act by removing failure to comply with the best mode requirement as a basis for asserting either invalidity or unenforceability.<sup>79</sup> Although the best mode defense is no longer available to litigants, the requirement that the patentee disclose the best mode remains part of section 112 and may continue to play a role in patent prosecution. This change applies to proceedings commenced on or after September 16, 2011, the date of enactment.<sup>80</sup>

## CONCLUSION

While the Reform Act presents the greatest change to the patent statute in over half a century, several major reforms proposed in prior versions of the bill failed to make it to the president's desk, including modifications to the law regarding damages, venue, and willfulness. Also, in the final version of the Reform Act, the controversial issue of the diversion of fees generated by the Patent and Trademark Office ("PTO"), what Judge Paul Michel (Ret.) described as "overwhelmingly the greatest need of patent reform,"<sup>81</sup> remains unsettled. Ultimately, the intended impact of the Reform Act on patent litigation will not be trivial, but the impact may be eclipsed by the Reform Act's unintended consequences.

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<sup>76</sup> *Id.*, § 16(b) (describing § 292 as amended).

<sup>77</sup> *Id.*

<sup>78</sup> 157 Cong. Rec. S5320-21 (daily ed. Sept. 6, 2011) (statement of Sen. Kyl).

<sup>79</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 15 (describing § 282 as amended).

<sup>80</sup> *Id.*, §15(c).

<sup>81</sup> *Crossing the Finish Line on Patent Reform: What Can and Should Be Done: Hearing Before the Subcomm. On Intellectual Property, Competition, and the Internet of the H. Comm. On the Judiciary, 112th Cong. 32* (2011) (statement of Judge Paul Michel (Ret.), former Chief Judge, U.S. Court of Appeals for the Federal Circuit).

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