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Authors

Clifton E. McCann
cemccann@Venable.com
202.344.8162

Thomas F. Barry
tfbarry@Venable.com
202.344.4689

Historic Patent Reform Bill to Become Law

After six years of consideration on Capitol Hill, the U.S. Senate passed monumental patent reform legislation late yesterday, September 8, by an impressive 89-9 margin. The House of Representatives has already given its approval. President Obama has heralded the legislation as a "job creator," and following his signature the bill will become law. Enactment is expected within a week, and parts of the law will go into effect immediately.

The legislation changes the way inventorship disputes are decided, redefines "prior art," adds new options for challenging bad patents, seeks to increase Patent and Trademark Office funding, and makes numerous other changes that will markedly alter the U.S. patent system. Altogether, the reforms constitute the most significant change to U.S. patent law since at least 1952. In several ways the legislation will make U.S. patent law more compatible with the patent laws of other industrialized nations.

The following is a summary of the bill's most significant changes.

From first-to-invent to first-inventor-to-file. The new law will fundamentally change the way the Patent and Trademark Office ("PTO") awards patents when two inventors make the same invention at about the same time. Until now, a U.S. patent has generally been awarded to the first of two inventors to conceive of an invention. This means that the first inventor can be awarded the patent even if the later inventor was the first to file a patent application in the PTO. Under the new law, the patent will go to the first inventor to file an application, regardless of which inventor thought of the invention first. This is a radical departure from existing U.S. patent law, but the change actually brings the United States into line with the general state of the law in the rest of the world.

New definition of "prior art." Section 102 of the current Patent Act specifies the kinds of documents and events that, if in existence prior to the date an application for patent is filed, can be used to reject the application or invalidate a patent based on the application. The new legislation changes Section 102 in several important ways. Under existing law an inventor can publicly disclose his invention, sell it, offer it for sale, or use it commercially in the United States, and then wait up to one year before filing a patent application. Under the new law, an inventor retains this one-year grace period as to the inventor's own public disclosure, but will lose all rights in the invention if he sells it, offers it for sale, or uses it publicly before he files the application. Another important change to Section 102 concerns different treatment of prior art depending on where the prior art arose. Under existing law, a public use or sale outside the U.S. is not prior art. Under the new law, a non-U.S. public use or sale will be prior art capable of denying a U.S. patent to a subsequent applicant.

New options for challenging bad patents. Over 400,000 U.S. patent applications are filed each year. Only about 6,000 U.S. patent examiners are available to review them. In the short time an examiner has to do all that needs to be done to examine an application, mistakes are made and bad patents are granted. The new legislation gives patent challengers several new options for attacking pending applications and issued patents. For the first time, challengers will be able to petition the PTO for review of a patent on any grounds within nine months of the patent grant date, similar to the way in which newly issued patents can be opposed in Europe. A downside is that, if a challenger fails to invalidate a patent by this procedure, she cannot later challenge the patent on the same grounds in court. Of particular interest to the finance industry, the legislation also provides for a new "transitional proceeding" that is intended to make it easier and less costly to challenge the validity of business method patents in the PTO if the patent claims a method or apparatus for performing operations utilized in the practice, administration, or management of a financial product or service. Additionally, the new law establishes a proceeding to resolve allegations that the inventor improperly derived the invention from another, and it maintains (and in some cases alters) pre-existing options for challenging or correcting patents and pending applications.

Enhanced funding of PTO operations. The U.S. patent system promotes the creation and development of new technology, which in turn has a positive economic impact that can create new jobs. On the whole, the new legislation is likely to improve the patent system and the quality of U.S. patents, thus enhancing this positive effect. Congress intended to help ensure this positive effect by making more funding available to speed up the patent examination process and reduce the PTO's backlog of almost 700,000 applications. In particular, the new law will allow the PTO to set its own fees (subject to certain restrictions). A measure that would have given the PTO complete control over the fees it collects failed. As a consequence, some believe that the diversion of PTO funds to non-patent federal programs will continue.

Other changes to the law. Other significant changes include:

- *Expansion of prior user rights.* Under existing law, the “prior user” defense to an infringement claim is only available with respect to prior commercialization of business methods. The new legislation expands the defense to all other technologies. In a nod to universities, the expanded defense is not available for use against owners of university-owned patents.
- *Changes for Claims of False Marking.* The legislation eliminates *qui tam* lawsuits for false patent marking when the false marking claim is based on an expired patent, and prevents a party from making a false marking claim unless it has suffered competitive injury as a result of the false marking.
- *Authorization for prioritized examination.* Under this provision, the PTO can offer expedited examination for applicants who are able to pay a premium. Large entities, for example, can pay \$4,800 and then expect to receive a first action from the U.S. patent examiner within 12 months of filing.
- *Ban on tax strategy patents.* Some patents have been criticized for their claims to tax strategies that are considered improper schemes to reduce federal tax liability. Under the new law, applications for protection of certain tax-related strategies are effectively banned.
- *Change in result of failure to disclose best mode.* Under existing law, an inventor is required not only to describe her invention and to teach how to make and use it, but also to describe how to practice the invention in the best way known to her and her company. That requirement, known as the “best mode requirement,” is unchanged under the new law. However, unlike existing law, the new law does not allow an alleged infringer to assert a failure to satisfy the best mode requirement as a defense to patent infringement.

Going forward under the new law. Enactment of the new law will present important new opportunities for both patent owners and patent challengers alike. Patent owners can look forward to expedited examination and some relaxation of disclosure requirements. Patent challengers will have new ways to challenge patents in the PTO, where the cost of challenging is relatively inexpensive compared to federal litigation. For both owner and challenger, and the industry at large, the new law will hopefully fulfill the legislators’ intent of providing greater certainty when assessing the validity and scope of U.S. patent rights.

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