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## The America Invents Act: A Brave New World of Patent Laws and Procedure

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# The America Invents Act: A Brave New World of Patent Laws and Procedure

## *Panelists:*

*Nathan Kelley, Associate Solicitor,  
U.S. Patent and Trademark Office*

*Marc Hubbard, Partner, Gardere Wynne Sewell LLP*

*Colin Cahoon, Partner, Carstens & Cahoon, LLP*

*Sarah Tran, Assistant Professor of Law,  
SMU Dedman School of Law*

## *DEAN JOHN ATTANASIO:*

Good morning. My name is John Attanasio, and I am Dean of the SMU Dedman School of Law.<sup>1</sup> I want to welcome you on behalf of the organizers, faculty, students, and staff alike. This is the ninth in a series of annual conferences that we have presented on intellectual property issues. Nine years ago, a dear friend and a very distinguished graduate of this school, Les Ware,<sup>2</sup> and I were having breakfast when Les came up with a wonderful idea. He said he wanted to sponsor, and have SMU start, a national series of conferences focusing on intellectual property issues. Furthermore, he said he wanted it to be one of the most—he might even have said “the most”—distinguished series in the country. I told him I knew the perfect person to organize such a conference. That person was Professor Xuan-Thao Nguyen.<sup>3</sup> At the time, I think Professor Nguyen had been with us about two months, but I told Les I had a lot of confidence in her. So I gave this conference over to her, and turned out to be exactly the right decision. Professor Nguyen and Mr. Ware have made this series into what it has become today. Over the past nine years, we have hosted a who’s who of speakers, and this year is certainly no exception. You have a wonderful program ahead of you today.

One of my roles as Dean of the Law School is to say thank you, and so I particularly want to acknowledge the continuous sponsorship of the Ware Law Firm. What they have done, both in this conference and in so many other ways for the school, is really terrific. Additionally, I want to thank all those who have made this conference possible, particularly professors Xuan-

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1. John B. Attanasio, SOUTHERN METHODIST UNIVERSITY, <http://www.smu.edu/AboutSMU/Administration/Dean-DedmanLaw> (last visited Sept. 9, 2012).
  2. Mr. Leslie Dale Ware, STATE BAR OF TEXAS, [http://texasbar.com/AM/PrinterTemplate.cfm?Section=Find\\_A\\_Lawyer&template=/Customsource/MemberDirectory/MemberDirectoryDetail.cfm&ContactID=149524](http://texasbar.com/AM/PrinterTemplate.cfm?Section=Find_A_Lawyer&template=/Customsource/MemberDirectory/MemberDirectoryDetail.cfm&ContactID=149524) (last visited Sept. 9, 2012).
  3. Nguyen, Xuan-Thao, Professor of Law, SMU DEDMAN SCHOOL OF LAW, <http://www.law.smu.edu/faculty/Nguyen> (last visited Sept. 9, 2012).

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Thao Nguyen, David Taylor,<sup>4</sup> Keith Robinson,<sup>5</sup> Sarah Tran,<sup>6</sup> and other members of our faculty who teach in this area. Here at SMU, we have a very distinguished group of intellectual property teachers. Furthermore, they are all very young, so they will only get better. Lastly, I would like to thank the student members of the SMU Science and Technology Law Review as well as our fabulous staff, Rebekah Bell, Kristy Offenburger,<sup>7</sup> James Pan<sup>8</sup> and the many others who provide the backbone for this conference.

So with that, it is my pleasure to introduce my friend and colleague, Professor Xuan-Thao Nguyen. Not only does she teach in the area of intellectual property, Xuan-Thao has also published approximately thirty articles as well as five books on the subject.<sup>9</sup> She helped pioneer the concept of commercializing intellectual property; moving the field from the issue of "Have you proprietized it?" to "How do you put it in the mainstream of commerce?" She has also provided leadership and pioneered intellectual property concepts in areas outside her area of expertise, such as tax.<sup>10</sup> And for that she has received a very considerable, deserved reputation. So, without further adieu, let me introduce my colleague, the main organizer of the symposium, Professor Xuan-Thao Nguyen.

*PROFESSOR XUAN-THAO NGUYEN:*

Good morning. Thank you so much to everyone for coming to the conference today. First, I want to say thank you to Dean John Attanasio. Under his leadership, my dream of having a fabulous new IP law faculty has come true. We recently have brought on Professors Sarah Tran, David Taylor, and Keith Robinson as part of the SMU law faculty. They all teach in the area of intellectual property law, so I am no longer alone. I am so grateful to the dean for expanding the IP department here at SMU.

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4. Taylor, David O., Assistant Professor of Law, SMU DEDMAN SCHOOL OF LAW, <http://www.law.smu.edu/Faculty/Full-Time-Faculty/Taylor.aspx> (last visited Sept. 9, 2012).
  5. Robinson, Walter Keith, Assistant Professor of Law, SMU DEDMAN SCHOOL OF LAW, <http://www.law.smu.edu/Faculty/Full-Time-Faculty/Robinson.aspx> (last visited Sept. 9, 2012).
  6. Tran, Sarah, Assistant Professor of Law, SMU DEDMAN SCHOOL OF LAW, <http://www.law.smu.edu/Faculty/Full-Time-Faculty/Tran.aspx> (last visited Sept. 9, 2012).
  7. Dedman School of Law - Faculty and Staff, SOUTHERN METHODIST UNIVERSITY, <http://smu.edu/catalogs/graduate/law/faculty.asp> (last visited Sept. 9, 2012).
  8. SMU Law Library - Staff, SMU LAW LIBRARY, <http://library.law.smu.edu/About-the-Library/Staff> (last visited Sept. 10, 2012).
  9. *Id.*
  10. *Id.*

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With this symposium, I think we are at a very critical juncture in the growth of patent law, especially if you look at what has happened over the last few months. For example, Microsoft recently paid \$1.3 billion to acquire 800 patents from AOL.<sup>11</sup> Additionally, Facebook decided to purchase 750 patents from IBM,<sup>12</sup> and a consortium group spent \$4.5 billion to acquire 6,000 patents in the Nortel bankruptcy matter.<sup>13</sup> We are basically looking at a patent arms race. Furthermore, with the new Leahy-Smith America Invents Act (AIA)<sup>14</sup> and its first-to-file provision, we know patent applications will be filed sooner, which can only mean more patents in the marketplace. Whether these changes in the law will help foster innovation or simply facilitate a greater patent arms race remains to be seen. In either case, these questions are going to be answered soon.

We think this conference today is timely to address some of the really pertinent big picture issues about where patent law is heading. These issues are especially important considering what is happening in China and India today, particularly with China and the rapid acceleration in the number of patents being filed there.<sup>15</sup> I think we are at a critical juncture. To address many of these critical issues, we have with us some fabulous speakers who have travelled from all over the country to speak with us here today.

You are in for a wonderful treat this morning with our first panel. My colleague, Professor Sarah Tran, will be facilitating. Sarah joined us here at SMU from Georgetown Law School. I distinctively remember her CV because it read like a *Who's Who in America*. After graduating with an engineering degree from Berkeley, Sarah volunteered with the Peace Corps and spent two years using her engineering background to help the people of Guinea, West Africa. Having grown up on an oil compound in Saudi Arabia, Sarah's background contains elements of both energy and intellectual property. The intersection of IP, energy, and environmental law is another critical juncture itself. With that, I turn it over to Professor Sarah Tran to come introduce the speakers on the panel.

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11. Steve Lohr, *Microsoft's AOL Deal Intensifies Patent Wars*, N.Y. TIMES, Apr. 10, 2012, at B1, available at 2012 WLNR 7518913.
  12. Brian Womack, *Facebook Is Said to Buy 750 IBM Patents to Boost Defenses*, BLOOMBERG (Mar. 22, 2012, 5:48 PM), <http://www.bloomberg.com/news/print/2012-03-22/facebook-is-said-to-buy-750-ibm-patents-to-boost-defenses.html>.
  13. Steven Church, Tim Culpan, Devin Banerjee, *Apple Joins Microsoft, RIM in \$4.5 Billion Buy of Nortel Patents*, BLOOMBERG (Jul. 1, 2011, 11:18 AM), <http://www.bloomberg.com/news/print/2011-07-01/nortel-sells-patent-portfolio-for-4-5-billion-to-group.html>.
  14. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat 284 (2011).
  15. Press Release, *China Poised to Become Global Innovation Leader*, THOMSON REUTERS (Oct. 6, 2010), [http://thomsonreuters.com/content/press\\_room/legal/626670](http://thomsonreuters.com/content/press_room/legal/626670).

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PROFESSOR SARAH TRAN:

Thank you, Professor Nguyen, for that very warm welcome. I am delighted to be the moderator for this panel today. This morning, we are discussing the brave new world of patent law. It really is a time of immense change within the patent system. We have three speakers here with just an incredible amount of expertise in patent law. First, we have Nathan Kelley, an associate solicitor at the United States Patent and Trademark Office (USPTO).<sup>16</sup> Before he joined the Solicitors' office, he graduated with a J.D. magna cum laude from George Mason University. He then joined the Federal Circuit, first as a member of its permanent legal staff and later as a judicial clerk for the Honorable Judge Rader.<sup>17</sup> While at the Patent and Trademark Office, Nathan defended the PTO on a number of legal issues ranging from specific patentability determinations to broader issues involving the PTO's statutory examination duties. We are very fortunate that he came all the way from Washington D.C. for this symposium today.

We also are going to hear from two patent practitioners, starting with David Carstens. David is a registered patent attorney and also a partner in the firm of Carstens & Cahoon,<sup>18</sup> a fifteen-attorney firm specializing in IP law here in Dallas. And he is no stranger to SMU, having received both his J.D. and his MBA from the university.<sup>19</sup> He also serves as an adjunct professor here at SMU where he teaches a number of intellectual property courses.<sup>20</sup> He is the past president of the DFW Intellectual Property Lawyers Association<sup>21</sup> and also a Master in the Barbara M.G. Lynn Intellectual Property Inn of Court here in Dallas.<sup>22</sup>

Our third panelist is Marc Hubbard. He is also no stranger to SMU and another example of an incredible success story after graduating from SMU's law school. He is a partner in the IP practice at Gardere Wynne Sewell here in Dallas.<sup>23</sup> Additionally, he sits on the Barbara M.G. Lynn Inn of Court,

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16. Office of the Solicitor Staff, United States Patent and Trademark Office, <http://www.uspto.gov/ip/boards/solicitor/index.jsp> (last visited Sept. 9, 2012).

17. Randall R. Rader, Chief Judge, U.S. COURT OF APPEALS FOR THE FEDERAL CIRCUIT, <http://www.cafc.uscourts.gov/judges/randall-r-rader-chief-judge.html> (last visited Sept. 9, 2012).

18. David W. Carstens, Carstens & Cahoon, LLP, CC LAW, <http://www.cclaw.com/our-people/partners/david-carstens.html> (last visited Sept. 9, 2012).

19. *Id.*

20. *Id.*

21. *Id.*

22. The Honorable Barbara M. G. Lynn American Inn of Court, <http://www.innsofcourt.org/Inns/barbaramglynninn/> (last visited Oct. 5, 2012).

23. Marc A. Hubbard, Hubbard IP, <http://hubbardip.com/professionals/> (last visited Oct. 5, 2012).

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where he is a Master.<sup>24</sup> Marc currently serves as the Vice-Chair of the Patent Law Committee of the American Intellectual Property Law Association.<sup>25</sup> He previously served at the 2011 Mid-Winter Institute and chaired its International Education Committee. He also is the Program Chair for the Institute of Law and Technology at the Center of American and International Law and is a member of the council of the IP section of the Dallas Bar Association.

For this panel, each of the speakers will present for fifteen minutes about what they consider the most important and controversial changes to our patent system that have come about because of the America Invents Act. After that, I will ask them a couple of question. For the rest of the time we want to have a highly interactive experience with the audience. So please, as you are thinking about what the speakers are saying today, feel free to prepare questions to ask at the end. Now, please join me in welcoming our panelists.

*DAVID CARSTENS:*

Hello, everyone. Good morning. I am David Carstens. Thank you for that gracious introduction. Well, I do not know about you, but over the last twenty years or so, I have gotten kind of down about Congress. I hear the news, and I think, “Wow, they are just not getting anything done. They can’t even seem to control spending.” We send people up there who you might not even want to have employed at your own law firm. Quite frankly, it has been a drag. Then, I read the America Invents Act,<sup>26</sup> and I liked it. The more I liked it, the more I read it, and pretty soon I realized that Congress had hit a home run here. Quite honestly, I got excited. This is probably the greatest piece of legislation that Congress has ever produced. It has renewed my faith in Congress, and on some level, it has renewed my faith in America. So, thank you for entertaining a little hyperbole there, but there happens to be a lot of hyperbole surrounding this Act.

The AIA has generated a lot of interest, in part because we waited so long for it. It seems like every session of Congress we have been listening to talk about patent reform, and it seems like it gets pretty close and nothing happens. Then, another session comes along, and it gets pretty close, and again nothing happens. Or, sometimes, it seems to get lost in the background noise of Congress. Then, all of a sudden, they actually passed something—

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24. The Honorable Barbara M. G. Lynn American Inn of Court, <http://www.innsofcourt.org/Inns/barbaramglynninn/> (last visited Oct. 5, 2012).

25. Patent Law Committee, AIPLA, [http://www2.aipla.org/MSTemplate.cfm?Site=Patent\\_Law&CFID=11727682&CFTOKEN=85943535](http://www2.aipla.org/MSTemplate.cfm?Site=Patent_Law&CFID=11727682&CFTOKEN=85943535) (last updated Sept. 9, 2012).

26. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat 284 (2011).

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the America Invents Act, which President Obama signed into law back in September 2011.<sup>27</sup>

Some really significant changes have come about because of this Act. Today, I will focus on three of them, and these three all have something to do with what might impact one's decisions before filing a patent application. Additionally, these changes might also affect how practitioners strategize initial filings. First, I will discuss the change to Section 102, which is where we find our definition of *novelty*. Next, I will discuss certain procedures that have been implemented to help companies deal with uncooperative inventors. I do not know if any of you have ever faced that, but I have had to face it a couple times. It is a nightmare. Fortunately, the Act provides certain procedures to help companies who find themselves in this situation. My last topic will be prioritized examination. Prioritized examination is something that when you look at it, you wonder why we did not do this twenty years ago.

Let's start with novelty. Most of you know that to get a patent your invention must be novel and non-obvious. Section 102 defines novelty, and it is a fairly complicated provision.<sup>28</sup> At times, it seems almost cobbled together. As I recall, Judge Giles Rich, a very intelligent man, wrote most of it. He based Section 102 on old legislative language and certain court decisions. He did a good job, but it is a fairly complicated set of rules with a number of different sections. One of these sections, 102(g), embodies the idea of first-to-invent; basically, first-to-invent is the idea that persons are entitled to a patent unless someone else conceived of it first.<sup>29</sup> It should be noted that America is still a first-to-invent nation. The new Section 102 that we will discuss later does not take effect for another eleven months.<sup>30</sup>

America has a tradition of wanting to honor its inventors, and there have been many famous ones throughout our history. Thomas Edison, Alexander Graham Bell, and Philo Farnsworth are just a few. Farnsworth is the inventor of probably the single most important invention in my house—the television set. He came up with the idea, worked on it, and went to the patent office only to find that someone else had also applied for the same patent ahead of him. Ultimately, after a couple years of struggle, the patent office decided that indeed Farnsworth was the first to invent and awarded him a patent.<sup>31</sup> This was obviously great for him and his family because I'm sure he realized some economic benefit from it, but this was a situation where the

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27. *America Invents Act of 2011*, Committee on the Judiciary, [http://judiciary.house.gov/issues/issues\\_patentreformact2011.html](http://judiciary.house.gov/issues/issues_patentreformact2011.html) (last visited Sept. 9, 2012).

28. 35 U.S.C. § 102 (2002).

29. 35 U.S.C. § 102(g) (2002).

30. Leahy-Smith America Invents Act, Pub. L. No. 112-29, § 3(n)(1), 125 Stat. 284, 24 (2011).

31. U.S. Patent No. 1,773,980 (filed Jan. 7, 1927).

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patent office had to go through a substantial amount of effort just to determine who was the first to invent.

Although some of you may be very familiar with 102, let's go through it anyway. In 102(a), we have a little laundry list of rules. Generally, you are entitled to a patent unless it "was known or used by others in this country, or patented or described in a printed publication in this or a foreign country *before the invention* thereof by the applicant."<sup>32</sup> Now contrast that to section 102(b), which talks about whether something "was patented or described in a printed publication, . . . put in public use or on sale in this country, more than one year *prior to the date of the application*."<sup>33</sup> From this we can see that we have two different dates we must focus on: the date of invention and the date of application. While the date of invention can be somewhat problematic, the date of application is fairly objective. We know the date of application—when it was received by the patent office—because it is date stamped. The date of the invention, however, is more troubling. Determining the date of invention is why we require inventors to keep patent notebooks that are dated and witnessed by others. These documents help provide evidentiary proof of when somebody actually conceived of an idea. They also help prove that the inventor exercised due diligence in reducing his or her invention to practice.

From a policy standpoint, why does this matter? Why should we care about awarding a patent to the person who was first to invent? One policy argument is that it rewards, and thus incentivizes, innovation. However, there is competing policy that guides us to get information into the hands of the public as quickly as possible—in the form of patent applications at the patent office. So, a balancing act exists between rewarding the first to invent and incentivizing inventors to get that invention to the patent office.

In response to this, the America Invents Act has removed the 102(g) requirement completely. In fact, the term "date of invention" is no longer mentioned anywhere. Instead, the effective filing date is now the sole time requirement. Through the new 102(a), a person is now entitled to a patent unless the claimed invention was patented, described in a printed publication, in public use, offered for sale, or otherwise made available to the public before the *effective filing date*. In essence, section 102 has been simplified. We no longer worry about the date of invention, which historically has proven problematic. Now, we only need focus on a very objective date, the effective filing date. You will notice the laundry list of the new section 102 seems pretty much the same as the old section 102, as they both use the terms: "patented," "described in a printed publication," "public use," "on sale," etc. Likewise, 102(a)(2), from the new Section 102, talks about

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32. 35 U.S.C. § 102(a) (2002) (emphasis added).

33. 35 U.S.C. § 102(b) (2002) (emphasis added).

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whether it was a claimed invention, or was described in a patent or published application that names another inventor.<sup>34</sup>

So, what Congress has done with the new section 102 is simplify the definition of *novelty*. Prior art now includes anything that has been patented anywhere in the world, described in a printed publication anywhere in the world, in public use anywhere in the world, or otherwise available to the public anywhere in the world before the effective filing date. You will remember that in the old section 102(b) there was this language about “more than one year prior.”<sup>35</sup> You do not see that in the new 102(a).

One of the first questions to be answered now is whether our definition of “novelty” will be more like the “absolute novelty” language used in other parts of the world. There, unlike here, *any* disclosure prior to the date of invention negates the novelty and kills any chance of getting a patent. Generally, though, what we have here is not an absolute novelty standard. But, there are exceptions. If you look at the new section 102(b), it dictates that disclosures “made one year or less before the effective filing date of the claimed invention shall not be prior art to the claimed invention under subsection (a)(1) if it was made by the inventor or by somebody who obtained the subject matter from the inventor.”<sup>36</sup> So, you have kind of a carve-out here; a little bit of a grace period in case the inventor makes some sort of a disclosure prior to his filing date. Personally, I think this represents a pretty good balancing act by Congress.

What practical tips can we learn from this? The new definition of novelty seems to be all about speed and diligence. Filing dates are going to win the day, so there are three places where we have to think about improving performance. To begin with, if you have a company and staff within the company dedicated to research and development, you must make sure they turn in their invention disclosures more quickly. They cannot sit on their inventions for six months while they keep experimenting to see if everything turns out just right. I think companies need to establish some sort of an early disclosure process. Likewise, the in-house attorney must be quicker in reviewing those applications and disclosures. Additionally, if you have outside counsel drafting your patent applications, they too must have faster turnaround times. In essence, everything must now be quicker.

Let’s now move on and discuss difficult inventors. Again this may not seem like a big deal, but I have had two experiences with this in just the last year. An uncooperative inventor can make things extremely difficult. Employees, especially key employees, exercise a certain amount of leverage when they refuse to sign a declaration or an assignment agreement. It can

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34. Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 3(a), § 102(a)(2), 125 Stat 284, 5–6 (2011).

35. 35 U.S.C. § 102(b) (2002).

36. Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 3(a), § 102(b), 125 Stat 284. 6–7 (2011).

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really hold up a company, and it is simply not right because the company is paying his salary and may even have incentive programs in place for him. If he has been hired to do this sort of work, it is unfair for him to withhold cooperation in the signing of documents. Of course, there are legitimate reasons not to sign, as in the case where the application does not accurately describe the invention. Here, the inventors would be justified should they choose to put their foot down. But, there are also other times when employees are simply holding things up for their own selfish reasons. Because of this, there is now section 115(d)(2)(B)<sup>37</sup> which allows a “substitute statement” to be filed in place of the inventor’s declaration. This section allows companies to file a separate document that will act in place of the inventors’ declaration. It helps keep the case rolling and allows the company to perfect what is rightfully theirs.

Finally, I want to talk about prioritized examinations. Like I said earlier, I have no idea why the patent office did not do this twenty years ago. As an illustration, look at how the post office works. At the post office, you can buy a stamp for forty-eight or fifty cents, and your letter will be delivered within three or four days. This process works fine most of the time. However, there are times where you must send it overnight. In that case, you may be willing to pay \$12 to \$15 to get that overnight delivery. The same thing is true for patents. Companies sometimes recognize that they have something so important that they need the patent examined quickly; especially given the fact that the average pendency can last from 24 to 36 months. I cannot tell you the number of times we have talked to companies and explained the pendency period that they are getting ready to face, and they just look crestfallen. They cannot believe they may not hear anything for two years. It is so good to be able to tell them there is now an option that will allow them to get some sort of response in as quick as six months. We have had a significant number of our clients say this is fine. The price, however, is not cheap. It is approximately \$4,800 as opposed to the standard filing fee, which is about \$1,000.<sup>38</sup> But by and large, most clients do not care. They are already spending \$30,000-\$40,000 on legal fees. An extra \$3,000 or \$4,000 for filing fees does little to change their minds.

The authorization for all of this is in section 2(b)(2)(G), which provides the PTO with authority to offer prioritized examination for cases that are important to “national economy” or “national competitiveness.”<sup>39</sup> I am not really sure what that standard means, but it certainly sounds interesting. Ad-

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37. Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 4(a)(1), § 115(d)(2)(B), 125 Stat 284, 27 (2011).

38. *United States Patent and Trademark Office Fee Schedule*, United States Patent and Trademark Office, <http://www.uspto.gov/web/offices/ac/qs/ope/fee092611.htm> (last visited Oct. 18, 2012).

39. Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 25, § 2(b)(2)(G), 125 Stat 284. 141–42 (2011).

ditionally, the filing requirements are set out in 37 C.F.R. 1.102(e).<sup>40</sup> The PTO has agreed to look at 10,000 of these per year.<sup>41</sup> They have also said they can change that number if the program proves successful. I have pulled some stats from the PTO just to give you a sense of how many people are doing this. Prioritized examination must be requested, and so far it looks like there have been about 1,700 requests through March 15. Based on this, it sounds like they are going to receive approximately 7,000–8,000 this first year, fiscal year 2012. Most of the prioritized examinations are granted, and it looks like thirty-five were dismissed. I suspect those were dismissed for some sort of a filing issue, such as failing to follow the filing requirements. Interestingly enough, the very first patent awarded under this prioritized examination process went to Google.<sup>42</sup> This patent was filed on September 30,<sup>43</sup> and so it looks like application through issuance took only six to seven months. That is pretty spectacular. I guess I am not surprised that Google was the first to file. They obviously were ready to file right away, and they did.

There are some issues, however, that come along with prioritized examination. For example, you are limited to thirty claims.<sup>44</sup> You can only have four independent claims.<sup>45</sup> Furthermore, if you get an office action, you must respond quickly. You have to be ready to speak with the examiner on the phone. If you fail to comply, they pull it off the prioritized examination track, and put it back on the examiner's regular docket. From a strategy point of view, however, that may not be such a bad idea. Maybe this would get you a quick first look as to whether the invention is patentable. From there, you may want to make a decision about whether to take it off the prioritized examination track or not.

There are some other benefits to this as well, which we will discuss a bit later. But now, I will hand the podium over now to Mr. Marc Hubbard.

*MARC HUBBARD:*

First of all I must apologize. I am suffering from allergies right now, so I may have to clear my throat a few times. I think the last time I was in this room I was actually taking a final exam for income taxation. I hope to do better this time. And unlike David, who is a glass-half-full kind of guy, I am more of a glass-half-empty kind of guy.

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40. 37 C.F.R. § 1.102(e).

41. Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 11(a), § 41(h)(1)(B)(iii), 125 Stat 284, 106 (2011).

42. U.S. Patent No. 8,094,942 (filed Sept. 30, 2011).

43. *Id.*

44. Leahy-Smith America Invents Act, Pub. L. No. 112-29, sec. 11(a), § 41(h)(1)(B)(ii), 125 Stat 284, 106 (2011).

45. *Id.*

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DAVID CARSTENS:

Actually, I am a glass 95-percent-full kind of guy.

MARC HUBBARD:

David took a pre-grant view of AIA from a private practitioner's perspective. By contrast, I am going to take a post-grant perspective of this. There are many changes in the AIA that relate to post-grant practice, but today, I am going to focus mainly on four specific changes: review proceedings, supplemental examination, the expansion of the prior commercial use defense, and transitional business method covered patent reviews.

I will attempt to answer four questions today, or at least put them out for discussion. The first question is whether *inter partes* review,<sup>46</sup> which is one of the new review proceedings, will pick up where *inter partes* reexamination<sup>47</sup> leaves off and become a true alternative to district court litigation, at least for certain issues relating to validity. Along those same lines, will anyone make use of the new post-grant review? I will explain later why I am not so sure anyone will. Third, will supplemental examination ever be used, and if so, how? Finally, is this expanding commercial prior use defense at all useful?

Probably the single biggest change that has come about from the AIA, at least from the perspective of post-grant practice, concerns review. It is basically Congress's third or fourth attempt to revamp reexamination. With the new AIA, Congress has established three flavors of reviews: *inter partes* review, post-grant review, and transitional covered business method patent review.

The first of these reviews, *inter partes* review basically replaces *inter partes* reexamination.<sup>48</sup> Beginning September 16, 2012, you will no longer be able to file *inter partes* re-exams. *Inter partes* re-exams, however, should not be confused with *ex parte* re-exams. Those, you can continue to file because that statute really wasn't changed.<sup>49</sup> Additionally, while *ex parte* re-exams can be filed with the court regardless of the patent filing date, *inter parte* re-exams can only be filed against patents that were issued after November 20, 1999.<sup>50</sup> By contrast, the Act allows for *inter partes* review to be filed against all patents regardless of filing date. It should be noted, however, that *inter partes* review can only be brought after the expiration of the post-grant review period, if applicable, and then only after all post-grant re-

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46. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat 284 § 311 (2011).

47. 35 U.S.C. § 311 (2002).

48. H.R. 1249 § 311 (2011).

49. 35 U.S.C.A. §§ 302–307 (2002).

50. 37 C.F.R. § 1.913 (2011).

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views have been completed.<sup>51</sup> Most importantly, a petition for *inter partes* review must be filed within one year of being sued for infringement.<sup>52</sup> If you are sued for infringement, the petitioner or real party in interest must file a petition for review within one year of being sued for infringement. Additionally, the petitioner must file the review prior to instituting the civil action challenging that patent.<sup>53</sup> In terms of timing, that will affect some of the strategies that people will use post-grant.

By comparison, the second of these reviews, post-grant reviews, must be filed within nine months of the grant.<sup>54</sup> Furthermore, they only apply to patents with the earliest expected filing dates on or after March 16, 2013.<sup>55</sup> We are probably not going to see any of these for at least two or three years. It depends on how fast the patent office examines applications that are filed on or after March 16, 2013. In addition, unlike *inter partes* review, where a petitioner's grounds for review are restricted to sections 102 and 103, in a post-grant review, petitioners may raise any grounds. Furthermore, post-grant reviews are not limited to printed publications and patents, so it is pretty wide open.<sup>56</sup> It sounds interesting, but hopefully we will get a chance to talk about that a little bit later and see if it is really going to be that useful.

The final flavor of review is transitional covered business method patent review. This is really sort of the anti-data-treasury rule. It is intended to allow anyone to institute a post-grant review with respect to computer implemented financial products or services. However, technological inventions are excluded.<sup>57</sup> I believe Nate might be talking later about what constitutes a technological invention. This type of review is unique in the sense that it will sunset after eight years.<sup>58</sup> It will begin in September and sunset eight years later. More importantly, it can only be brought by someone who has been sued or charged with infringement of the patent that they want to challenge under this review process.<sup>59</sup> There may be a few of those, but I do not necessarily expect many of them to be filed.

How are reviews different from *inter-partes* re-exams? Unlike a re-exam, which is truly an examination process, reviews are going to be adjudicative in nature. At least, that is how the house judiciary phrases it in their

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51. H.R. 1249 § 311(c).

52. H.R. 1249 § 315(b).

53. H.R. 1249 § 315(a).

54. H.R. 1249 § 321(c).

55. H.R. 1249 § 3(n)(1).

56. See H.R. 1249 §§ 321–329.

57. H.R. 1249 § 18.

58. H.R. 1249 § 18(a)(3).

59. H.R. 1249 § 18(a)(1)(B).

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report.<sup>60</sup> The burden will rest with the petitioner to demonstrate that the claim should be canceled by a preponderance of the evidence.<sup>61</sup> The review will effectively be tried before three administrative patent judges.<sup>62</sup> This panel will be known as the Patent Trial Appeals Board. All appeals from this panel will be taken directly to the Federal Circuit. There will be no interim appeals to any other body within the PTO.<sup>63</sup>

In addition, only limited discovery will be permitted. Furthermore, for both post-grant and *inter partes* reviews you will be able to cross-examine the declarants, which presumably will be experts.<sup>64</sup> In an *inter partes* review, the board is authorized to permit additional discovery as necessary in the interest of justice.<sup>65</sup> By comparison, in post-grant reviews the board is authorized to allow discovery evidence directly related to factual assertions.<sup>66</sup> From this, we can see post-grant reviews provide for broader discovery than do *inter partes* reviews. In both cases it is fairly narrow as compared to what you might see in district court litigation.

These proceedings are meant to be fast. The statute says they need to be completed within one year; however, they can be extended for up to six months for good cause.<sup>67</sup> The decision on a petition filed by the challenger is expected to take approximately four to six months. At four to six months, you are potentially looking at up to a two-year period of time between filing the petition and a final determination by the board on the review.

As I said earlier, appeals are taken at the Federal Circuit. In short, this is intended to be a comparatively attractive alternative to district court litigation. Since some people insist that *inter partes* re-exams are doing quite well, you might ask, "Why mess that up?" Why do we want reviews instead of re-exams? Well, in my view, despite their increasing popularity, re-exams are still not particularly widely used. If you look at the number of re-exams filed, you will see it has a hockey stick shape to it.<sup>68</sup> It has only been recently that the number of petitions has really taken off. However, if you look at the total number of requests, you will see that even last year there were only 374. Although I do not have data on district court cases filed in 2011,

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60. H.R. Rep. No. 112-98, at 46 (2011), available at <http://judiciary.house.gov/issues/Patent%20Reform%20PDFS/CRPT-112hrpt98-pt1.pdf>.

61. H.R. 1249 § 321(e).

62. H.R. 1249 § 6; H.R. 1249 § 316(c).

63. H.R. 1249 § 141.

64. H.R. 1249 § 316(a)(5).

65. *Id.*

66. H.R. 1249 § 326(a)(5).

67. H.R. 1249 § 316(a)(11).

68. U.S. PAT. & TRADEMARK OFF., Inter Partes Reexamination Filing Data, [http://www.uspto.gov/patents/stats/IP\\_quarterly\\_report\\_June\\_30\\_2012.pdf](http://www.uspto.gov/patents/stats/IP_quarterly_report_June_30_2012.pdf).

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roughly 3300 were filed in 2010.<sup>69</sup> So you can see that is really a minuscule fraction of the cases that were filed. Based on those numbers, I would contend that *inter partes* reexaminations are still not a real alternative to district court litigation.

In addition, re-exams are not fast. The pendency period averages roughly three years. It goes up and down, but historically, it has taken roughly three years before a certificate is issued. However, an appeal can increase the period up to six years or more. Thus, there is no guarantee these re-exams will be resolved quickly. As of the end of fiscal year 2011, I believe only 305 had actually been completed. In my view, re-exams are simply inefficient. Concurrent litigation is only stayed in 50 to 60 percent of cases on average. Some judges stay district court cases as a matter of routine while others hardly stay them at all. There is a lot of variability and unpredictability. Having concurrent or parallel proceedings can also potentially lead to inconsistent results. I view that as being inefficient and wasteful. Apparently, so does Congress, or at least the House Judiciary did. According to the House Judiciary Committee report, they think *inter partes* reviews will “remove disincentives to the current administrative process” by providing a “quick and cost effective alternative to litigation.”<sup>70</sup> I have my doubts about that, but as the Committee points out, reexamination proceedings are costly and take several years to complete. Petitioners must go through two rounds before appealing to the Federal Circuit. The first round is examination followed by an appeal within the PTO. Only then may an appeal can be taken to the Federal Circuit.

What are some of the advantages of *inter partes* review? Well, first of all, it elevates the validity determination to a panel of judges who hopefully are capable of making these decisions efficiently and consistently. As I mentioned earlier, these proceedings will be tried to a board of three APJs. In theory, this presents an opportunity for a hearing. The idea of making arguments concerning validity live and in front of a judge is appealing to most people.

Additionally, in view of the time frame in which you must initiate the review after being sued for infringement, I think it is fair to say that judges are more likely to stay concurrent district court actions if a review petition has been filed. This means less likelihood of parallel proceedings and thus less likelihood of inefficient management of resources. Furthermore, appeals are taken to the Federal Circuit providing a more direct route to the final answer. Hopefully, this will serve to short-circuit some of the process.

Finally, the patent owner’s right to amend the claims is somewhat limited. The statute actually only provides for a *right to make a motion to*

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69. U.S. COURTS, Table C-2A.U.S. District Courts—Civil Cases Commenced, by Nature of Suit, During the 12-Month Periods Ending September 30, 2006 Through 2010, <http://www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2010/appendices/C02ASep10.pdf>.

70. H.R. Rep. No. 112-98, at 48 (2011).

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amend. On this issue, the PTO is proposing as a matter of right that the patent owner be allowed to propose one substitute claim per challenged claim.<sup>71</sup> This obviously makes it difficult for patent owners to make wholesale changes to some of their claims.

Probably the biggest disadvantage to *inter partes* reviews is estoppel. Since Nate said he would discuss estoppel, I will let him deal with that issue.

Some of the other disadvantages include the high cost. I think it will be really expensive to put together one of these petitions. Limited discovery, as I mentioned earlier, is another disadvantage. Some people want to be able to take extensive discovery, so this will certainly not please them. Furthermore, proposed filing fees are really high. They begin at \$5,180. If you want to challenge more than 20 claims, the fees can increase to as much as \$17,500.<sup>72</sup> However, in theory, you can institute multiple reviews based on different claims within the same patent. This may cut down on some of the costs. Lastly, I think some of the rules that the PTO has proposed for implementing this contain a lot of issues. Some people worry we will not really know how attractive the process really is until we see the final result.

Who will use *inter partes* reviews? I think the same people who file *inter partes* re-exams will probably file *inter partes* reviews if they can. Good results from these reviews will probably entice more to file, so who knows? Maybe we will get more reviews filed than re-exams, but until some track record is established, we won't know.

Post-grants reviews, as defined in the Act, are not European style oppositions at all. Frankly, I do not see people really using these, but we can talk more about that later.

Nate will be discussing supplemental examinations, but let me say quickly that this has gotten a fair amount of play. Frankly, I do not see why anyone would file one of these in most cases. They are expensive. Furthermore, with the but-for materiality standard established in *Therasense*,<sup>73</sup> I think there is a lot less reason to file one. Finally, I think there are alternatives to this. You can file a no-defect reissue and submit prior art that might have been withheld and have it considered at that point. That will, in effect, cleanse your patent from any inequitable conduct charges that might have arisen by withholding the prior art.

Finally, I think the narrow expansion of prior-user rights is useless. It is useless in Europe, and I think it will continue to be useless here. Again, we can talk more about that later.

In conclusion, I think the reviews might be more attractive than our current system of reexaminations, but I am not sure exactly how much more

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71. H.R. 1249 § 326(d).

72. Setting and Adjusting Patent Fees; Proposed Rule, 77 Fed. Reg. 55028, 55049 (proposed September 6, 2012), available at <http://www.gpo.gov/fdsys/pkg/FR-2012-09-06/html/2012-21698.htm>.

73. *Therasense*, 649 F.3d 1276.

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attractive they will be. Personally, I believe a better solution is better examiners and reformation of the PTO procedures. Only then can we ensure timely issuance of quality patents. Most of stuff here is simply window dressing. With that, I will turn it over to Nate.

*NATHAN KELLEY:*

Thank you, Mark, and good morning everybody. It is a pleasure to be here. Fortunately, it is not anywhere near as hot as it was last time I was in Dallas. I don't know who arranged that, but I appreciate it. What I would like to do here this morning is go over what the PTO is doing right now and where we are with regards to improvements. Then, rather than give an overview of each one of our rules, which I couldn't possibly do in 15 minutes, I will hit on a couple of controversial issues. First, I will discuss the board rules. Then, if I have time, I will come back to some of the rules that involve examination.

Last September, the AIA was passed and signed into law by the President.<sup>74</sup> In addition to changing our system in America from a "first-to-invent" to a "first-to-file"<sup>75</sup> system, it also puts a pretty heavy burden on the PTO, at least in the short term. In addition to implementing the post-grant proceedings that we have heard about today, the PTO must also implement various changes to the examination process. We have at least a dozen rulemakings to go through in the next year. While that might not sound like too difficult a task, it should be noted that the rulemaking process is a little more Byzantine than one might think. The rules obviously must be written. Then, they must be reviewed, both internally and externally. Following that, they are sent to the Office of Management and Budget for review. Once reviewed, the public is notified and given a chance to comment. Extracting out the days from all these steps leaves only about 100 or so days for the reviewer. It becomes quite tricky. Doing twelve at once only compounds the issue. At this point our bias, if there is a bias, is for speed; getting things out the door quickly. Then, if we have time, go back take a look at them again. We have stayed on track, thanks in large part to the director of our implementation process, Janet Gongola. If you have visited any of our road shows recently, then you have probably seen her present these rules, sometimes in punishing detail. That may seem a bit pejorative, but it is actually a good thing. What we need at this point in time is comments from the public, so the more detail the better.

In January, we published our first proposed set of rulemakings. These five rulemakings concerned changes to patents. Then, in February, we published the rulemakings for the board changes. Following this, we entered into the post-publication notice period. During that time, we did our road shows and tried to give the public as much information as possible in order to

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74. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat 284 (2011).

75. *Id.*

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elicit as many comments from the public as we could. The comment period is now closed. We received approximately 120 comments total, which when averaged came out to be around 30 per rule. Of those comments, the majority came from individuals (50+), followed by IP organizations (30+), companies (20+), law firms (10+), and finally academic and research institutions (1). Currently, we are busy going through and studying these.

Instead of discussing the patents rulemakings first, I will skip to the board rulemakings. A good way to look at the changes in the post-grant proceedings themselves is to look at how we have structured the rules. We have established what I call a set of “umbrella rules.” These rules are actually the rules of practice.<sup>76</sup> They apply to every proceeding at the Patent Trial and Appeal Board that involves AIA actions. Underneath the umbrella rules we have rules governing post-grant review,<sup>77</sup> rules for the covered business method review,<sup>78</sup> rules for *inter partes* review,<sup>79</sup> and finally rules for the derivation proceedings.<sup>80</sup> Hopefully, this structure allows counsel to first learn the umbrella rules well. Then, when necessary, dive down into and learn the rules for whatever proceeding they are about to attend. Hopefully, since there are no duplicative rules across packages, this will avoid redundant learning. At present, we have received about 250 total comments on these board rulemakings. This comes to about 50 comments for each of the big packages: the umbrella rules, *inter partes* review (IPR), post-grant review (PGR), and covered business method, patents (CBM). We have received approximately 80 comments from companies. These represent the majority of the comments received. I think it best to think of these companies as patent owners. Behind companies, we received about 70 comments from individuals followed by around 50 from IP organizations, 30 from law firms, and then finally firms two comments from academic institutions. However, let’s not think that just because academia only submitted two comments, they are not interested. I believe most of their comments were recorded as individuals rather than institutions. It would be nice to see those numbers broken out further, but at the moment, we do not have that information.

Now, I will discuss a few of the issues in the board packages that are receiving attention. Hopefully I won’t lose anyone. The first one that is receiving the most attention is the PTO’s definition of a *technological invention*. We knew this would receive a lot of attention because of our previous experience with the continuations package. Because of this, we decided to put the technological invention provision in its own rule package. The reason for doing that is that in the very unlikely event that someone tries to

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76. 77 Fed. Reg. 6879 (Feb. 9, 2012).

77. 77 Fed. Reg. 7060 (Feb. 10, 2012).

78. 77 Fed. Reg. 7080, 7095 (Feb. 10, 2012).

79. 77 Fed. Reg. 7041 (Feb. 10, 2012).

80. 77 Fed. Reg. 7028 (Feb. 10, 2012).

challenge this rule making provision, they will not bog down all the other provisions.

Marc mentioned earlier that we might not see any post-grant reviews for a few years, and I think that's fair. However, I assume we may see some post-grant review filings of business method patents this September because the provision allows people who have been accused of infringing a business method patent to file for review during the transitional period. However, you could argue the definition of business method patent is somewhat narrower for this particular case. It is defined as a patent claiming data processing or other operation related to a financial product or service. A lot of the questions I get concerning this are, "What does that mean?" "Is it just a banking patent?" "Is it the one-click patent?" That is something that will need to evolve over time. I think of them generically as business method patents. That might be too broad of a way to think about it, but it gets you in the door that Congress pushed open. To begin with, you cannot petition for one of these reviews unless you have been sued. Additionally, it must be one of these special types of patents. However, Congress also gave us a doorstopper. They said, "OK, but it does not extend all the way to patents that cover *true* technological inventions."<sup>81</sup> Then they told us to define what true technological invention means. The definition we came up with is an invention in which "the claimed subject matter, as a whole, recites a technological feature that is novel and nonobvious over the prior art; and solves a technical problem using a technical solution."<sup>82</sup> Let me be completely frank. When I first read that definition, I thought it might be circular and used the word "technical" too much. However, the drafters of the rule said, "We looked at the legislative history. We read the committee report. We read the comments from the Senators, and this is what they said. This is exactly what they said, so what better way to begin the process than by proposing a rule that is as close to the legislative history as possible." That is what we have done here.

If you are going to use this excuse, you must first understand the heart of the definition. The technical invention must be the exact thing that got you the patent in the first place. In other words, you cannot just take a business method and stick "whereby it is operated on a computer" in the claim. "Operating on a computer" is not what got you that patent. If what got you the patent is the *technological feature*, then it seems logical that it falls right back out of the business method category and into the realm of a true technological invention. For the advanced players in the room who have read *Prometheus*,<sup>83</sup> that is similar to what the Supreme Court did with section 101.<sup>84</sup> I think for all of the patent attorneys around today, we have hopefully gotten

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81. 77 Fed. Reg. 6896 (Feb. 9, 2012).

82. 77 Fed. Reg. 7095 (Feb. 10, 2012).

83. *Mayo Collaborative Servs. V. Prometheus Labs., Inc*, 132 S.Ct. 1289 (2011).

84. 35 U.S.C. § 101 (2002).

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away from thinking about the “heart of the invention” or the “gist of the invention,” which is something Judge Rich told us many times not to focus on.<sup>85</sup> It seems like in a few areas we might be moving back to that.

That brings me to the next issue, which is the estoppel that will flow from these proceedings. There are two types of estoppel: the estoppel against the requester and the estoppel against the patentee. The requestor estoppel is particularly significant in post-grant review. The same estoppel rules apply for both post-grant review and *inter partes* review. You are estopped against things you raise or reasonably could have raised.<sup>86</sup> The reason it is more onerous in post-grant review is because of the potential scope of post-grant review. The difference between a post-grant review and an *inter partes* review is that an *inter partes* review is like an IP re-examination. It is an alternative, or in some cases, a second front to a district court litigation. However, in an *inter partes* review, you can only raise patents or printed publications. By contrast, in the post-grant review, you can raise any single challenge that you could raise in order to assert invalidity in district court. You can say the claim is indefinite or lacks enablement. You can assert there is no written description, that it covers non-patentable subject matter, that the invention is anticipated, that it is obvious, you name it. If you are going to be able to bring it up in the district court later, then you are allowed to bring it up in the post-grant review. That is why the “could have raised” estoppel is so significant. If you see a competitor’s patent and think, “We invented that. Let’s trigger a post-grant review with our own prior art,” you must be very careful. Because of the far reaching scope of the post-grant review, if you miss the fact that the claims are maybe not enabled and fail to raise it there, you will be estopped later from asserting that in court. That is the reason why a lot of people who look at this provision think it may not get used very much. There is a possibility that Congress is going to change this. A technical correction is floating around Washington right now that will eliminate the “or reasonably could have raised” portion of the estoppel. We can debate whether that is a technical correction or not. If you read the committee report, it says that it meant for it to be, merely, “raised.”<sup>87</sup> In other words, Congress did not mean to include “could have raised” in the provision. Arguably, that is a technical correction, but there are a lot of interest groups on both sides.

The patentee estoppel is also interesting. It is interesting from our point of view at the PTO because it is an estoppel that, to some extent, we have created by rule. It is in our umbrella rules, as rule 4273.<sup>88</sup> It says that a patentee in one of these proceedings cannot get a patent claim that they could have introduced into the proceeding. The idea is to force people in a pro-

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85. *Vas-Cath Inc. v. Mahurkar*, 745 F. Supp. 517, 522 (N.D. Ill. 1990).

86. 35 U.S.C. § 325(e) (2002).

87. H.R. Rep. 112-98(I), 112th Cong. (2011).

88. 77 Fed. Reg. 6879 (Feb. 9, 2012).

ceeding to give us what they think they are entitled to right then, and have the board determine it right then. Frequently, district courts are waiting on the decision, so we do not want to be in a situation where we fail to pass on something, only to have the district court see it later in another patent. Telling people they can never get a claim again in a regular patent application or a reissue is a little aggressive, but this form of estoppel is supported by many of our new rulemaking authorities. Particularly there is an authority that tells us to govern the relationship among all the proceedings in Title 35.<sup>89</sup> We would regard this as governing the relationship between, for example, a reissue or a continuation and the on-going post-grant proceeding.

Another issue in post-grant proceedings concerns whether one can bring in new information after the post-grant proceeding is ordered. These proceedings are designed to have two phases. The initial phase, or the petition phase, is where the board decides whether the petition raises sufficient grounds to institute the proceeding. The second phase is the actual proceeding. Our rules, as drafted, permit the petitioner to bring in new issues during the second phase; in other words, after the proceeding has been instituted. We think that is within the scope of the statute. It is however, a limited ability. The petitioner is only allowed thirty days after the proceeding has begun in which to bring in new issues. We have heard a lot of critical comments concerning that rule.

Finally, I would like to address the discovery issue. Theoretically these proceedings were modeled after classic district court discovery practices. However, we do not think that the sort of far-reaching discovery allowances that frequently occur in district courts will lead to either an economical alternative or a fast alternative. Therefore, what we have done is set forth a couple of routine discovery matters. One is, for example, allowing declarants from the other side to be deposed.<sup>90</sup> The other thing we wanted to put in is that we've set forth, as routine discovery, noncumulative information that is inconsistent with the position taken by either the petitioner or the patentee.<sup>91</sup> People familiar with former rule 56 might say, "That sounds a little like the IDS rules that you used to have." That might be true. However, the way we look at it, this is the type of discovery that people are going to want every single time, so it makes sense to put it out there as a routine form of discovery.

With the minute and a half I have left, I would like to go back and look at a few of the patent issues. There are four big patent rulemakings. First, we have the Oath or Declarations.<sup>92</sup> Next, we have the pre-issuance submissions. This allows you to put a reference in front of the patent examiner.<sup>93</sup>

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89. 37 C.F.R. § 42.1 (2012).

90. 77 Fed. Reg. 6869 (Feb. 9, 2012).

91. 37 C.F.R. § 1.56 (2012).

92. 37 C.F.R. § 1.63 (2012).

93. 77 Fed. Reg. 42150 (July 17, 2012).

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We also have the rule concerning citations in a prior patent file. This one is a bit tricky. In addition to allowing you to file a reference in a patent, it also allows you to cite a patent owner's statement about what he thinks the claim covers. This prevents the patent owner from taking an alternative position in the re-exam.<sup>94</sup> Finally, supplemental examination allows you to essentially immunize your patent from inequitable conduct charges by allowing the patentee to submit prior art he might have left off during initial prosecution, and have the Patent Office look at the reference.<sup>95</sup> We are not sure if that will be used much in view of *Therasense*.<sup>96</sup> However, maybe the "Belts and Suspenders" people will do both—rely on *Therasense* and additionally give us the information. We received 120 comments, so about half as many for the board rules as we did for these. Unlike the board proceedings, most of the comments came from individuals followed by organizations, companies, and then law firms. What I read from this is that the people commenting on the patent rules are patent attorneys who prosecute a lot of applications. By contrast, the people talking about the board rules are patent owners, but that is just my guess.

In the five seconds I have left, the one thing I want talk about is our oath and declaration rules. It is kind of interesting. Our current Rule 53<sup>97</sup> says you must give us an oath or declaration at the outset. This can sometimes be a bit difficult for some applicants to do because as we mentioned earlier, inventors can sometimes be a bit recalcitrant. Our rules do not change that. Although Congress changed the statute to say that the oath and declaration can come before the notice of allowance, we kept the rule as it was. We thought, "Well, 'at the beginning of prosecution' is before the notice of allowance, so *technically* we are still in the ballpark." There are two sides to this. One side says that early filing helps examination. It helps us know what to look for, what to search for, and who the inventors are. Later filing, however, obviously helps the applicant because they will not have to get one unless they need it. And they won't have to get two. If claims change along the way sometimes you have to get a beginning oath and an end oath. This is just a snapshot into the kind of things we have to think about when we get to the final rules, which you should see before September 16th of this year. Thanks.

*PROFESSOR SARAH TRAN:*

Before I open it up to the audience, I have just a few questions for the panelists. First, Nate, you mentioned that you are soliciting comments and reading all this feedback. How much can you change a proposed rule without publishing another proposed rule in the final rule?

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94. 37 C.F.R. § 1.501 (2012).

95. 37 C.F.R. § 1 (2010).

96. *Therasense, Inc. v. Becton, Dickinson and Co.*, 649 F.3d 1276 (2011).

97. 37 C.F.R. § 1.53 (2009).

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*NATHAN KELLEY:*

That is interesting. We faced that in our earlier litigation concerning complaints and continuations. There is an administrative rule that says the final rules must be a logical outgrowth of the initial rules.<sup>98</sup> So, you cannot surprise people. You cannot go in a completely different direction. If it is a logical and foreseeable progression, than it is permissible. However, if you get a comment that suggests a complete 180-degree turn on an issue, you cannot rely on it to change the rule. The language of the subsequent rules must be a logical outgrowth of the initial rules. Whether it is or is not is something that is fun to litigate.

*PROFESSOR SARAH TRAN:*

I now have a question for Marc and David. Let's say hypothetically that Director (David) Kappos gets so tired of hiring so many new attorneys and examiners and initiating so many new rules and changes that he decides to pack up, leave DC, and move down to Florida. Now you have been appointed co-directors of the Patent and Trademark Office. What would you do differently?

*DAVID CARSTENS:*

What would I do differently? I don't know. I think the director is doing a great job. Unlike Congress, in whom my faith was shaken, the PTO has never shaken my faith. I have great admiration for them. I think they have an incredibly difficult task, and they do an honorable and effective job. That said, I do not know how else to improve the system except to hire more examiners and to better compensated them so they do not leave. That is a constant frustration for us. The PTO produces good quality examination, but I think if you had longer tenures up there with the examiners, things would improve. But they will not stay without more money.

*PROFESSOR SARAH TRAN:*

And so, to get that money, would you raise fees?

*DAVID CARSTENS:*

Yes, I probably would. I do not really think there is a direct correlation between higher fees and the number of filings. You see how fees have grown over the last 10 years, and yet you have also seen filings go up. Maybe there was a little dip in the recession of 2008–09, but nothing that was related to the fees. Yes, I'd raise fees.

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98. A Guide to the Rulemaking Process, FEDERAL REGISTER, [https://www.federalregister.gov/uploads/2011/01/the\\_rulemaking\\_process.pdf](https://www.federalregister.gov/uploads/2011/01/the_rulemaking_process.pdf) (last visited Oct. 5, 2012)

*PROFESSOR SARAH TRAN:*

Marc?

*MARC HUBBARD:*

Obviously, the last couple of years under Director Kappos, the PTO has really done a pretty good job reaching out to the community and doing a lot of good things to try and improve operations. However, I still think there are a lot of very exasperated patent practitioners as well as patentees and prospective patentees out there. In my view, the AIA is mostly window dressing. I think the change from first-to-invent to first-to-file is obviously pretty substantial, but I believe that is just rearranging the chairs. For the most part, people have been operating in a first-to-file system for many, many years anyway. So, I do not necessarily think it is going to make a huge difference. I do think David is correct in saying it can put a lot of pressure on companies and inventors to file applications sooner.

The real improvement in patent quality, I believe, can come from continuing to improve the patent operation at the PTO. The current examination system needs to be completely re-engineered from beginning to end. We have been living with this compact prosecution practice for a number of years, and I just think it has proven itself not to work. I oversee a lot of prosecution in other countries, particularly in Europe, and I would much rather prosecute patents there than here in the US. I just think it is a more logical system. They do a much better job during the examination phase. I think we need to move the patent operations at the PTO more towards that kind of system; maybe not exactly like that kind of system because obviously they are in a different climate with a different litigation system and a different set of laws. Still, I think we can borrow quite a bit, and we can learn quite a bit from how the Europeans and other countries do it. At the end of the day, I think it would actually result in better patents. Additionally, all these reviews would be unnecessary, and we wouldn't be up in arms about patent quality. So what I would do if I were in Director Kappos's shoes is hire more (and better) examiners. Additionally, I would re-engineer the way the panel does business.

*PROFESSOR SARAH TRAN:*

So, Nathan, you're hearing these ideas, this idea of hiring more examiners of relocating the patent office in Paris, France . . .

*NATHAN KELLEY:*

I'll go there.

*PROFESSOR SARAH TRAN:*

What are your thoughts on these proposals?

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*NATHAN KELLEY:*

Obviously, you can't quibble with the idea that more labor will allow you to get more work done, so hiring more examiners is a start. The reengineering suggestion is interesting. Back in 1995, the PTO embarked on an enormous reengineering initiative. I was an examiner then, and examiners had to log their hours for everything they did. I logged 400 hours that year just on reengineering, and I was just one little person in a huge army. In the end, they didn't really change much. The examination process is how it has been for a very long time. I think the one thing that Director Kappos has done, which is frankly amazing, is that he tweaked the examiner account system a bit. It improved things, but other than that, it's a hard system to change.

I'll admit there is an awful lot of inertia. The notion of reengineering in the abstract is a good one, but, when you get down to the nuts and bolts of exactly how you are going to change a system in which an examiner looks at a claim, searches the prior art, and then writes a rejection, it becomes a quite challenging. Those three components seem pretty straight forward, and I guess it is something that we are always looking at. It would be interesting to see a concrete model that was different and more efficient.

As far as moving the patent office to Paris, I don't know. But we are going to move to Detroit. Which I guess . . .

*DAVID CARSTENS:*

. . . is almost like Paris.

*NATHAN KELLEY:*

We'll at least have better cars.

*PROFESSOR SARAH TRAN:*

Now I want to open up to questions from the audience. Yes?

*AUDIENCE MEMBER #1:*

Marc, my question is for you. You refer to Europe in a couple of contexts, and I would be interested to hear, first of all, what do you think are the key differences between European post-grant oppositions and *inter partes* review proceedings? Additionally, what particular things about European examination would you recommend to the future director of the Patent Office?

*MARC HUBBARD:*

I am not an expert in Europe patent opposition practice, but from my limited experience, and also from what I have learned from talking to our associates over there, there is a vast cost difference. Over here, you are looking at spending at least \$100,000 to try to put together a petition for post-grant review. Furthermore, it is going to take a lot of time.

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Additionally, here in the US, the estoppel provisions are obviously a huge concern. Europe has none of those issues. European oppositions can be based on anything. They can even be anonymously filed. Furthermore, they can be resolved really quickly and efficiently. It is not like filing a lawsuit. Post-grant review in the US is really like a lawsuit—a little lawsuit. Opposition practice isn't. It is really much more of an administrative proceeding. That's one big difference. Additionally, I think Europeans are very practical. They are more geared to say, "Okay maybe these claims are a little bit broad." Or someone goes in and says, "Well, we have some prior art here, so I think that claim is now invalid." So, you go in and you say, "Let's tweak the claim and get agreement from the other side." And it's done. It's over.

Now, in theory, the AIA addresses this with its post-grant review provisions, but you are probably going to be well into the process before anything is settled. I do not know. We will see how these post-grant reviews work, but I do not think it is like the European system at all. Nor do I think it is intended to be. In terms of trying to get better quality patents to actually issue, post-grant review provides little opportunity to change that. Post-grant review just attacks the patent right off the bat with an invalidity (or nullification) proceeding.

Regarding the PTO and what we can change there, I think this compact prosecution process is awful. I do not know how you get around it, but you need more breathing room. You need more opportunities to work with the examiner to be able to get things allowed. They are doing some of that with the Pre-First Office Action Interview Program and the new After Final Practice. They are confined, as Nate said, to the existing system. Additionally, they have examiner union issues to deal with. It is obvious they are working towards making things more efficient. In my view, they basically need to continue down that path. David, what do you think?

*DAVID CARSTENS:*

I do not think process ever is a substitute for smart work. In other words, you can change the process, you can change the titles all you want, but all that really matters is whether the examiners are capable or not. Do they have the time to really dig into the facts? Have you hired guys who have the right background for the job? All the other procedure changes and rule making really do not matter, because none of that is a substitute for being smart. That is why I think the core issue is retaining the best examiners you can and giving the PTO the money it needs to bring them in and keep them.

*PROFESSOR SARAH TRAN:*

So we have a question in the back. Yes?

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*AUDIENCE MEMBER #2:*

You mentioned that post-grant reviews might not be used because they are too expensive, but my company has spent about four million dollars and three years in a lawsuit over a ridiculous patent. Frankly, a few hundred thousand dollars for post-grant review looks pretty good right now. What are my other options?

*MARC HUBBARD:*

Remember that post-grant review can only be instituted within nine months of grant. For me, the most logical use is of it is when you are in a suit with a patent owner who has a pending continuation or a divisional application that is going to be issuing. Post-grant review is a logical place to attack that, but are you going to be watching patent grants? Probably not. No one, with the possible exception of pharmaceuticals companies, is going to be watching patent grants and jumping in there. With pharmaceuticals companies, you watch your competitors, and you are aware of the patent because the application has probably already been published, so you gear up and get ready to attack it once it grants. For the average patent owner, or average business out there, I do not see how it makes any sense at all to watch patents and file a petition for post-grant review.

*PROFESSOR SARAH TRAN:*

Nathan or David, do you have anything to add to that?

*DAVID CARSTENS:*

No. I mean, I agree with you when you talk about the cost of litigation versus some of these filing fees that they talking about. Of course, there is some initial sticker shock when you see \$20,000 or \$30,000 for a fee. But that is a drop in the bucket compared though to the real cost of the alternative. As patents are becoming more important, I think it does make some sense to watch your competitors, at least one or two of them. After all, it is not that difficult to keep an eye on what they've got pending. Even if you just do it every four months or so, chances are you will catch what your competitors have. If it is something that looks interesting, you can track it a little more aggressively.

*NATHAN KELLEY:*

I was just going to piggyback on that. One of our initiatives internally, is to encourage assignee information with filing. Right now, examiners do not necessarily know who the assignees are, but if we know at the outset who the assignee is, or who the owner of the application is, it tends to make it easier to track your competitors' patents because hopefully there will not be too many of them. If you combine the post-grant opportunity with the third party prior art submission opportunity—which is a really powerful tool that you have—then I think that maybe you need to watch your competitors'

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filing. Because let's face it, the hardest part of examining a patent application is finding the prior art, and the best person to find the prior art is the competitor. If you see your competitor's patent application, and you have several months before it gets examined, the most cost efficient thing you can probably do at that point is show the patent office the best prior art that you see. Now, that is obviously a forward looking solution, but I think that is possible solution to a lot of issues.

*DAVID CARSTENS:*

Now Marc, do you still think the glass is more half full now, or are you still thinking . . .

*MARC HUBBARD:*

I do think there are legitimate uses for competitor patent watching. I have clients that have been sued six or seven times by their competitors, and I can see them definitely watching published applications for opportunities to file third party submissions and also watching grants to file post-grant reviews. They are typically in a very narrow technical field, and their competitors are issued only a few patents a year. In that situation, it might make sense, but if you are Apple, you are certainly not going to be watching your competitors that closely. In fact, Cisco, Apple, and companies like that are very much opposed to providing and asking for that kind of information. This, I know for a fact, s I do not know if that is going to happen. In very limited circumstances, PGR will be great, and will be very useful. For the vast majority of us, it won't, and it's not going to really contribute that much to improving the overall patent quality.

*PROFESSOR SARAH TRAN:*

All right, there was a question over here.

*AUDIENCE MEMBER #3:*

Quick question, I'm unsure about the on sale prohibition in the new act. If the inventor's publication is an advertisement, will that bar his patent?

*DAVID CARSTENS:*

That's a great question because the Act uses a lot of the same language in the new 102(a) that was previously in 102(b). I suspect the courts are going to give those terms their same meaning. A huge amount of case law exists on what represents a sale and whether an ad is a publication; basically, all the *Pfaff vs. Wells*<sup>99</sup> stuff from 10 years ago. I would guess it gets the same interpretation.

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99. See generally *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 57 (1998).

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*AUDIENCE MEMBER #3:*

Well, it seems to me an advertisement *is* an offer for sale because the only reason you would publish an advertisement for a product is because you want to sell it.

*NATHAN KELLEY:*

It's a tricky issue. I'm reading 102 now as you ask the question. This has come up quite a bit. The PTO has largely stayed out of it, and I'm going to stay out of it now. I will observe that you are correct in saying that something on sale is a bar. As written, 102 states, "is on sale or otherwise available to the public," suggesting that "on sale" might be equivalent to "available to the public." However, if you go down to the exception, you see the first exception is a public disclosure. In my personal opinion, the advertisement is not a bar because that sounds to me like a public disclosure exception. By contrast, a *private* offer for sale is somewhat trickier. It does not seem like that would be covered by the exception, but there are arguments to be made that the legislative intent was to cover anything that the patent owner or inventor did in that year.

*DAVID CARSTENS:*

I'm looking forward to the first court case that will determine what "otherwise available to the public" actually means.

*MARC HUBBARD:*

There are a lot of people who are worried about that, and they have raised this issue from the beginning. Bob Armitage, general counsel for Eli Lilly, recently gave a presentation on the issue.<sup>100</sup> He believes private offers for sale do *not* create bars, [AK]Unsure if this is the correct presentation he is referring to and parts of the legislative history actually support that position. Additionally, certain statutory construction principals exist to support that position, but I would not feel comfortable advising clients that they should rely on that. Personally, I think it's a messed up statute.

*AUDIENCE MEMBER #3:*

So is your glass still half empty?

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100. Robert M. Armitage, *Statement of Robert A. Armitage, Senior Vice President and General Counsel, Eli Lilly and Company, Indianapolis, Indiana, Before The United States House of Representatives Committee on the Judiciary On "Implementation of the Leahy-Smith America Invents Act"* (2012), available at <http://judiciary.house.gov/hearings/Hearings%202012/Armitage%2002012012.pdf>

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*DAVID CARSTENS:*

His glass is now *completely* empty.

*PROFESSOR SARAH TRAN:*

I think I saw a question . . . right here, did you have a question?

*AUDIENCE MEMBER #4:*

Will this affect the experimental use exception?

*DAVID CARSTENS:*

No, I do not think it will be affected.

*MARC HUBBARD:*

You don't think so?

*NATHAN KELLEY:*

I do not think so either. Experimental use is technically not an exception. Rather, it is a negation, so if you whole-heartedly buy into that, nothing should change. However, it is a clean slate, so you never know.

*PROFESSOR SARAH TRAN:*

Is there a question in the back?

*AUDIENCE MEMBER #5:*

This is a question primarily for Mr. Kelley regarding streamlining or improving the whole process of examination. Marc brought up the European model, and one of things about the European model is that they use the Jepson claim style in which the prior art is characterized in the preamble. The point of novelty is in the body of the claim. This style forces the patentee to quit hiding the ball and identify the prior art. The question is, will the PTO ever consider requiring this style in the United States?

*NATHAN KELLEY:*

I don't think that the PTO necessarily wants to get into the business of telling people how they can structure their claims, how they can write them, or how the claims should be written. I imagine if you had a situation where a Jepson claim format was a requirement, we would see exceptionally short preambles.

On the subject of Europe, another difference between Europe and the US is that I believe people in the United States are more litigious than people in Europe. Additionally, attorneys here fight a little more aggressively and find more angles than maybe they might in Europe. I do not know if that is true, but it seems our system is far more adversarial. Europe's model by

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definition requires compliance from all parties. I do not know if we would embrace that here.

As for the specific Jepson claims, that is the second time in the past week or so someone has brought up that subject to me. I do not know if anyone has actually thought about requiring the Jepson style. On that subject, Director Kappos often looks to the European model for guidance. One issue that came up recently concerns derivation and what a derivation proceeding should look like. Because of the way our rules are structured, these proceedings look a lot like interferences. At one meeting recently, someone said, "Why should derivation proceedings look like interferences? They do not look like interferences in Europe. Why can't you accuse someone of derivation using a single application? Why do you need another application? This just creates an interfering subject matter dispute, which has little or nothing to do with derivation." Unfortunately, the answer is that is the way the statute is written. In the past we have tried to move away from strict adherence, but congress itself has injected notions that to some extent constrain us.

*AUDIENCE MEMBER #6:*

Yes, my question regards provisional patent filings. I've looked at the new law, and it seems to me that in order to rely on these filings, you must now include claims. Otherwise, you lose priority. Is this correct?

*NATHAN KELLEY:*

You know, I actually will admit that I did not realize that the provisional practice was changed to require a claim.

*MARC HUBBARD:*

Are you talking about the earliest effective filing date?

*AUDIENCE MEMBER #6:*

Yes, sir.

*NATHAN KELLEY:*

I do not know about that. You're suggesting that if your provisional application omits a claim, you will not be able to rely on it?

*AUDIENCE MEMBER #6:*

Right.

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*DAVID CARSTENS:*

Section 111(d) on provisional applications does not talk about it, but the definition of effective filing date is in section 100(i)(1).<sup>101</sup>

*NATHAN KELLEY:*

Personally, I do not know. It is something I will look into, but I am not going to figure it out right now.

*DAVID CARSTENS:*

Section 100(i)(1)(2) discusses claimed inventions.<sup>102</sup> Is that what you are referring to?

*AUDIENCE MEMBER #6:*

Yes

*MARC HUBBARD:*

As I read the statute, I do not think you need to add a claim to a provisional application in order to receive priority. However, I think it is probably a good practice to have. At the very least, throw in a pseudo claim for other reasons. But I do not think you *need* it.

*PROFESSOR SARAH TRAN:*

There was another question in the back?

*AUDIENCE MEMBER #7:*

I have a question for Nathan. You mentioned earlier that the PTO is continuing to improve its examination process. Even though I know a lot of examiners do not care for the compact process, there does not seem to be much incentive to change that. Can you discuss some of the other process improvements?

*NATHAN KELLEY:*

Well, Marc should be happy to hear that there are a lot of examiners who do not like compact processes. He would certainly agree with them. On the improvements, the PTO did implement some changes to its count system, and I think we are still seeing the effects from that. Additionally, we are constantly thriving to upgrade our training. The patent academy now works much differently than it did previously. For example, examiners must now learn examination procedures from within the academy, as opposed learning their own style from different primary examiners. But, we are continuing to

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101. 35 U.S.C.A. § 111 (2012); 35 U.S.C.A. § 100 (1999).

102. 35 U.S.C.A. § 100(i)(1)(2) (1999).

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try and improve. I am not aware of any new models that the agency is considering. Right now, I think the agency is focused primarily on implementing the AIA.

*AUDIENCE MEMBER #8:*

I think the current tax modifications agreement is an example of how the agency works with its union. There the agreement was that the PTO was to have a temporary provision in place for a period of time. At the end of that time period, the agency would see how it was working and based on that, permanently implement the modification.

*NATHAN KELLEY:*

Yes, that is true. Additionally, I think it also demonstrates one of the constraints that we have internally, which is that there is always a tradeoff between getting something done quickly and negotiating for a longer time with the union. When we get to a point where both sides can agree on something, then we try to implement it.

*AUDIENCE MEMBER #9:*

Since re-files are going up and not down, it seems to be a total failure.

*NATHAN KELLEY:*

I do not know why the re-files have gone up or by how much. I certainly do not think I would characterize it as a total failure.

*AUDIENCE MEMBER #9:*

46% of all filings are re-filings or RCE's.

*DAVID CARSTENS:*

But that means the agency has a 54% success rate.

*NATHAN KELLEY:*

We could throw out whatever numbers we want.

*DAVID CARSTENS:*

I believe we've found your spiritual brother out there.

*PROFESSOR SARAH TRAN:*

Today, we have discussed some of the most important changes of the American Invent's Act, such as whether we should now move the PTO to Europe, gizmo bars, reengineering. I would now like to turn it over to my esteemed colleague, Professor Robinson. Thank you.