

Client Alert.

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Patent Reform Act Will Change the Face of Patent Litigation

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President Obama is expected to sign the Leahy-Smith America Invents Act on Friday, enacting it into law. The Act, the first significant overhaul of the U.S. patent system in nearly 60 years, was preceded by months of debate and speculation about which proposed reforms would finally become law. For Morrison & Foerster's previous patent reform Client Alert, see [Patent Reform Is Upon Us](#). The Act will have significant, immediate impacts on patent litigation. Many of its litigation-related provisions will go into effect on the date of enactment, and a few will apply retroactively. Morrison & Foerster LLP will be hosting client seminars in [San Diego](#), [Palo Alto](#), and [San Francisco](#) to discuss how to best navigate these changes. Click on the cities above to find out more information and register for these seminars.

FALSE MARKING CLAIMS EVISCERATED

The Act will likely deal the final blow to the false marking boom. Under 35 U.S.C. § 292(a) in its current form, any individual can bring a *qui tam* action based on products that are mismarked as covered by a patent. The current statute provides for substantial statutory fines of \$500 "per offense," which can add up to hundreds of millions of dollars for popular consumer products.

Under the Act, only the United States will be able to sue for statutory damages for false marking. Private parties will be entitled only to compensatory damages based on "competitive injury" flowing from the false marking. This transformation of false marking from a *qui tam* action to an ordinary civil action for damages will apply to all cases pending on, or commenced on or after, the enactment of the Act. It will, therefore, have a retroactive effect, and will likely lead to a spate of motions to dismiss filed by those accused of false marking. Future false marking actions are likely to be rare.

"BEST MODE" NO LONGER A BASIS FOR INVALIDITY

Current law provides for several defenses to a claim of patent infringement, including the defense that the patent is invalid because the patentee failed to disclose the best mode of practicing the invention. The Act eliminates the best mode invalidity defense, amending

the list of defenses to patent infringement to exclude "failure to disclose the best mode." Section 112 continues to require that patentees comply with the best mode requirement; the new law simply prevents one accused of infringing a patent from mounting a defense based on the failure to disclose best mode. Patent examiners will retain the right (rarely exercised) to reject claims under examination for failure to disclose the best mode.

This inventor-friendly amendment goes into effect the day the Act is enacted and will apply to proceedings commenced on and after that date. Companies facing imminent patent infringement actions must, therefore, immediately begin recalibrating their defense strategy to account for the loss of this potential invalidity defense.

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STRICTER JOINDER AND CONSOLIDATION REQUIREMENTS

The Act imposes new requirements that must be fulfilled before accused infringers may be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial. Under current law, patentees (particularly non-practicing entities) have frequently filed a single lawsuit against many different defendants, whose only connection is that they are all accused of infringing the same patent. Although such cases arguably were filed in violation of the current joinder rules, the Act makes explicit that such actions are improper.

Under Rule 20(a)(2) of the Federal Rules of Civil Procedure, multiple defendants can be joined in one action only if “(A) any right to relief is asserted against them jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences; and (B) any question of law or fact common to all defendants will arise in the action.”

The Act codifies this standard into law, and adds that “accused infringers may not be joined in one action as defendants or counterclaim defendants, or have their actions consolidated for trial, based solely on allegations that they each have infringed the patent or patents in suit.”

In raising the joinder and consolidation bar in this manner, the Act crystallizes a recent trend among federal courts of taking a stricter approach to joinder and consolidation and refusing to relate cases asserting the same patents, or even dismissing for misjoinder.

Plaintiffs unable to meet the new requirements of the Act will now have to file separate lawsuits alleging infringement of the same patents, and will lose the economies of scale joinder and consolidation currently allow for. This provision is therefore likely to temper the increasingly common trend in patent litigation for one plaintiff to sue several unrelated defendants on the same patent, often in a single action.

As these provisions will apply to any civil action commenced on or after the date of enactment of the Act, their effects will be felt immediately. Indeed, many courts have seen a flurry of last-minute complaints filed shortly before the Act was expected to be signed into law.

Whether a case arises out of the “same transaction or occurrence” will, however, be the subject of litigation in the future. For example, courts will have to consider whether a patent holder can sue in a single case a component manufacturer along with the companies that used the component in their products. Also unclear is how a court faced with multiple cases involving the same patent will address motions to transfer. In exercising its discretion on a motion to transfer, can a court take into account the efficiencies that may result from keeping the multiple cases in a single court for claim construction and invalidity summary judgment motions? The Act does not provide any explicit guidance on this and many other pragmatic considerations that will arise.

NEW SUPPLEMENTAL EXAMINATION PROCEDURE

The Act creates a new procedure allowing a patent owner to request the USPTO to carry out a supplemental examination of a patent to “consider, reconsider or correct information believed to be relevant to the patent.” This provides patent owners an opportunity to disclose previously undisclosed information, or to correct incorrect information. If the new information is deemed to raise a substantial new question of patentability, a reexamination will be ordered. The primary benefit to patent owners of this “cleansing” procedure is that a patent cannot be held unenforceable on the basis of conduct relating to information that was not considered or was incorrect in a previous examination, as long as the

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deficiencies are rectified during supplemental examination.

But there are some important caveats. A patent is not shielded from a finding of unenforceability if the unenforceability allegation is pled with particularity in a lawsuit or ANDA paragraph IV certification notice before the date of the supplemental examination request. Nor can a patentee rely on a pending supplemental examination to defeat any defenses raised in an infringement action or a section 337(a) ITC action filed before completion of the supplemental examination or ensuing reexamination.

This new procedure will not be implemented until a year after the enactment of the Act, but at that time will apply to any patent, whether issued before or after the effective date. It therefore will apply retroactively to all patents, regardless of when they issued.

REVAMPED REEXAMINATION / REVIEW PROCEDURES

Current law provides for *ex parte reexamination* and *inter partes reexamination*, procedures that accused infringers frequently employ to challenge the validity of patents and potentially obtain a stay of litigation. The Act makes major revisions to the procedures available for post-grant review of patents. A detailed assessment of the new post-grant review and *inter partes* review procedures is the subject of a separate client alert (forthcoming). In the near term, the litigation impact of these new procedures will be limited. The new *inter partes* review will not be available until one year after the Act becomes effective. With the exception of certain business method patents (described below), post-grant review will be possible only for patents issued from applications with an effective filing date more than eighteen months after the Act goes into effect. Thus, post-grant review will likely not become significant for several years.

INVALIDITY CHALLENGES TO FINANCIAL BUSINESS METHOD PATENTS

The Act creates a special procedure for challenging the validity of a certain category of patents: “covered business method patents”, defined as patents claiming “a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for technological innovations.” This special procedure is called the “Transitional Program for Covered Business Method Patents”, and permits those accused of infringing business method patents to bring a post-grant review proceeding without some of the restrictions generally applicable to such proceedings.

The transitional program for covered business method patents is essentially a more expansive version of the post-grant review. There is, for example, no nine-month deadline, and the petitioner can challenge the validity of a covered business method patent regardless of the patent’s age. The petitioner must, however, have been sued for or charged with infringement of the patent. Of particular interest are the stay provisions of the transitional program. The Act lists four factors the court must consider when deciding whether to stay the infringement case pending the transitional proceeding:

1. Whether a stay will simplify issues for trial;
2. Whether discovery is complete and a trial date set;
3. Whether a stay would present a clear tactical advantage for the movant and prejudice the nonmoving party; and
4. Whether a stay or denial thereof would reduce the burden of litigation on the parties and the court.

These are the factors many federal courts already consider when deciding motions to stay, pending parallel proceedings. Their crystallization in statutory form, however, increases the likelihood that courts will stay infringement actions pending

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transitional proceedings. Immediate interlocutory appeal of the court's stay decision is available to the Federal Circuit.

FOREIGN PRIOR ART

The Act expands the scope of materials that may be considered prior art. It amends 35 U.S.C. § 102 to eliminate the "in this country" limit on prior art. In a significant, pro-defendant development that is also an acknowledgement of the globally interconnected nature of innovation, patent claims will now be subject to attack by evidence of prior public use of the invention anywhere in the world. The scope of prior art searches that must be conducted by patentees and accused infringers will widen drastically as a result of this change, but its effects will not be felt until eighteen months after the enactment of the Act.

FAILURE TO OBTAIN OPINION OF COUNSEL CANNOT BE USED TO PROVE WILLFULNESS OR INTENT TO INDUCE INFRINGEMENT

The Act also provides that the failure of an infringer to obtain the advice of counsel or present such advice to the court or jury "may not be used to prove that the accused infringer willfully infringed the patent or that the infringer intended to induce infringement of the patent." An open question is whether courts will interpret the Act to preclude consideration of the lack of an opinion of counsel in the determination of whether to enhance damages.

PATENT LITIGATION GOING FORWARD

The signing into law of the Act marks a new era of patent litigation. The Act presents a host of opportunities for companies, especially those defending patent infringement actions, provided they act quickly – given that several of the above provisions have immediate prospective and in some cases even retroactive effect. Morrison & Foerster will continue to provide guidance on these issues, and in forthcoming Client Alerts, will address the nuances of several of the issues outlined above as well as other important aspects of the Act.

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