

## New Law Reshapes U.S. Patent Landscape

### PENpoints

*New opportunities and pitfalls are created by the America Invents Act relating to patent and technology portfolio management.*

On Friday, September 16, 2011, President Obama signed into law a patent reform bill—the Leahy-Smith America Invents Act (the “Act”)—that reshapes patent law and patent litigation in the United States. The Act will likely significantly influence management of inventions and patenting efforts, protection of patent/technology portfolios, and strategies of patent litigants (whether as plaintiff or defendant). A private equity firm invested, or considering an investment, in a company for which patent protection is important should evaluate the new opportunities and pitfalls under the Act.

#### **Key Change #1: Switching from “First-to-Invent” to “First-Inventor-to-File” System**

The Act fundamentally changes more than a hundred years of U.S. patent law by transitioning from a “first-to-invent” system to a “first-inventor-to-file” system.

Under the prior “first-to-invent” system, the first inventor was awarded the U.S. patent on an invention, even if someone else filed a U.S. patent application on the same invention before the first inventor. Under the new system, the first inventor generally loses the ability to patent its invention in the U.S. if someone else files a U.S. application first.<sup>1</sup> ***Thus, delay under the new system generally costs an inventor the U.S. patent rights to an invention.***

The Act contains two important exceptions to the first-inventor-to-file rule:

- **Disclosure.** A first inventor can still preserve its patent rights by (i) “disclosing” the invention before the later inventor files a patent application and (ii) filing a patent application within one year after its “disclosure.” The Act does not define what constitutes “disclosure.”
- **Derivation Proceedings.** An inventor can seek to recover, using new mechanisms, patent rights from someone who used information from the inventor

to file a patent application without the inventor’s authorization.

Relying on these exceptions, however, requires strategic planning and careful consideration.

Companies should also evaluate their patenting practices to better align them with the new first-inventor-to-file system, including those related to (i) early identification of inventions, (ii) disclosures before patent applications are filed, and (iii) patent application and prosecution strategies.

#### **Key Change #2: Public Participation in Patent Application Process**

While a patent application is pending, any person or company—including a competitor—may submit information to the U.S. Patent & Trademark Office (“PTO”) to show that the applicant’s invention is not new (thus, not patentable). Companies should therefore evaluate whether to pro-actively monitor patent applications, including hiring monitoring services, and whether to submit such information if circumstances warrant.

#### **Key Change #3: New Avenue to Challenge or Bolster Issued Patents**

The Act provides new, potentially more cost-effective, ways to challenge or reinforce an issued patent. Under certain circumstances and subject to timing limitations, a person can request the PTO to reconsider the validity of an issued patent. In addition, a patent owner can use PTO proceedings to preemptively immunize

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an issued patent against a particular challenge to enforceability that might arise during litigation.

### Other Key Features Affecting Patent Strategies

The Act also contains a number of other key features that a company may want to use, or prepare to defend against, in its patent strategy relating to competitors:

- Financial Methods Patents. The PTO must implement an additional process to allow a company accused of infringing a patent relating to a financial product or service to challenge the patent's validity.
- Tax Strategies, Human Organisms Not Patentable. The Act prohibits patenting (i) tax strategies and (ii) claims "directed to or encompassing a human organism."
- Expanded Ways to Defeat Patents. Pre-filing activities—such as public use of or efforts to sell the invention by a third party—that could invalidate a

patent are no longer limited to those actions occurring in the U.S., which will expand discovery efforts for such activities worldwide, thus increasing the cost of patent litigation.

- Restrictions on Suing Multiple Defendants. The Act limits the circumstances under which a patent infringement plaintiff can sue multiple defendants in one lawsuit, adversely affecting the profitability of ventures seeking to monetize patents through broadly-targeted litigation campaigns.
- Certain Benefits for Small Businesses. The Act contains several features focused on assisting small businesses and start-ups in obtaining U.S. and international patents, including by (i) requiring the PTO to establish programs to assist small businesses with patent filing issues and to assist financially under-resourced independent inventors and small businesses and (ii) establishing a new, but narrow, category of "micro-entity" eligible for a 75% reduction in PTO fees.

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1 The first inventor generally also loses the ability to patent an invention in the U.S. if a foreign patent application covering the invention is published or a patent is issued before the first inventor files the U.S. application.

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## PENnotes

**Kirkland & Ellis Seminar: “Structuring and Negotiating LBOs”****Chicago - September 22, 2011**

This biennial Kirkland seminar, chaired by Kirkland partner Jack S. Levin, P.C., will review the legal, tax, structuring and practical negotiating aspects of buyouts and other complex private equity deals. Topics covered will include structuring the buyout of a target company; negotiating acquisitions; negotiating debt and equity financing for acquisitions; compensating target executives through equity-based incentives; tax, SEC, accounting and other legal and practical aspects of acquisitions and financings; special issues in acquiring a public company; special issues in acquiring a distressed company; restructuring a distressed portfolio company; forming private equity funds, including developments in taxation of carried interests; and using partnership, LLC or other tax flow-through entities. Click [here](#) for more information about this event.

**Practising Law Institute’s “Mergers & Acquisitions 2011: What You Need to Know Now”****Chicago - September 22-23, 2011**

At this two-day program, top deal lawyers, general counsel, regulators and investment bankers will discuss trends and techniques in tender offers and private equity transactions, dramatic developments in Delaware law and shareholder litigation, continuing vitality of the poison pill and insight into the antitrust regulatory landscape. Kirkland partner R. Scott Falk, P.C., is a co-chair of this event. For more information, or to register for this event, please visit: <http://www.pli.edu>.

**The NASBIC Venture Capital Institute****Atlanta, Georgia****September 19-22, 2011**

The NASBIC Venture Capital Institute will be held from September 19 - 22, 2011, at Emory University in Atlanta. This four-day program will be taught by experienced venture and private equity fund managers and industry professionals. The curriculum will offer innovative techniques for executing effective due diligence; difficult ethical considerations; elements of pricing, structuring and negotiating deals; preparing profitable exit strategies; and understanding current tax and legal issues affecting investments. Kirkland partner Jack S. Levin, P.C., will be speaking on “Critical Legal and Tax Aspects of the Venture and Private Equity Industry.” For more information, or to register for this event, please visit: <http://www.vcinstitute.org/>.

**Kirkland & Ellis Seminar: “Sixth Annual Real Estate Private Equity Symposium”****New York, New York****October 24, 2011**

Kirkland will host its Sixth Annual Real Estate Private Equity Symposium and cocktail reception in the New York office on October 24, 2011. Barry Sternlicht, chairman and CEO of Starwood Capital Group, will be the keynote speaker. Click [here](#) for more information about this event.

**Terrapin’s “Brazil Investment Summit 2011”****New York, New York****October 25-27, 2011**

Kirkland & Ellis is a sponsor of Terrapin’s Brazil Investment Summit 2011, an investment strategy conference for funds, traders and investors focused on Brazilian opportunities. This three-day conference will uncover opportunities across hedge funds, quantitative strategies, private equity, infrastructure, real estate, commodities and more. Kirkland partner Frederick Tanne will participate in a panel discussion on “Private Equity Opportunities.” For more information, or to please visit: <http://www.terrapinn.com/2011/brazil-investment-summit-usa/index.stm>.

**IBA’s “Private Equity Transactions Conference”****London - December 1, 2011****New York - December 6, 2011**

The IBA Private Equity Transactions Conference will be held in London and New York, and will feature discussions on the global private equity market; current market issues and predictions for 2012; emerging markets issues; and current issues in financing. Kirkland & Ellis is a sponsor of this event and partner Kirk A. Radke is a co-chair. Additionally, partner David Patrick Eich will be speaking on “Emerging Markets Issues: Themes from Asia and Latin America” and partner Jay Ptashek will speak on “Financing: Current Market Issues and Themes for Next Year.” For more information, or to register for this event, please visit: <http://www.int-bar.org/conferences/conf399/>.

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## Private Equity Practice at Kirkland & Ellis

Kirkland & Ellis LLP's nearly 400 private equity attorneys handle leveraged buyouts, growth equity transactions, recapitalizations, going-private transactions and the formation of private equity, venture capital and hedge funds on behalf of more than 200 private equity firms around the world.

Kirkland has been widely recognized for its preeminent private equity practice. The Firm was named Best M&A Firm in the United States at World Finance's 2011 Legal Awards and was honored as the "Private Equity Team of the Year" at the 2011 IFLR Americas Awards. Kirkland was also recognized as "Law Firm of the Year" in *Buyouts* magazine's "2010 Deal of the Year Yearbook." Kirkland was ranked in the first tier among law firms for both Private Equity Buyouts and Private Equity Funds by *The Legal 500 U.S. 2010*. Additionally, *Pitchbook* named Kirkland as one of the most active law firms representing private equity firms in its 2010 "Private Equity Breakdown."

*The Lawyer* magazine recognized Kirkland as one of the "The Transatlantic Elite" in 2008, 2009 and 2010, noting that the firm is "leading the transatlantic market for the provision of top-end transactional services ... on the basis of a stellar client base, regular roles on top deals, market-leading finances and the cream of the legal market talent."

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