

Recent Significant Changes in Patent Law

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America Invents Act

The Leahy-Smith America Invents Act (AIA) was signed into law by President Obama on September 16, 2011. It constitutes the most significant overhaul of the U.S. patent system in decades.

Conversion to “First-to-File System”

The AIA changes the United States from a “first-to-invent” system and to a “first-to-file” system somewhat similar to the systems used in most other countries but with a significant U.S. twist. Under this provision of the AIA, which takes effect in 18 months (i.e., on March 16, 2013), an inventor may win the race to create an invention but lose the race to file a patent application on the invention, thereby being unable to patent his invention despite being the first to invent. Under this new system, whoever files a patent application on an invention first will be entitled to a patent over another inventor who later files an application on the same invention, regardless of who was first to make the invention. This applies to the situation where multiple inventors independently invent the same invention.

Unlike most other countries, the U.S. had, and for 18 more months will continue to have, a “first-to-invent” system that protects the first inventor. It allows the applicant of a later-filed patent application to antedate or “swear behind” a prior art reference or another inventor’s application by proving that the applicant conceived of the invention before the effective date of the prior art reference or the conception date of the invention by another inventor. In contrast, the “first-to-file” system used in most other countries simply awards the patent to the applicant with the earliest filing date.

The “first-to-file” system eliminates patent interferences, a type of proceeding before the Patent Office to determine who among multiple applicants claiming the same invention invented first. Questions of conception, diligence, reduction to practice, abandonment, suppression, and concealment will no longer need to be answered, thus simplifying the determination. The “first-to-invent” system often made it very difficult to know who had the valid patent rights between two pending applications or issued patents on the same invention without engaging in an expensive interference proceeding conducted by the Patent Office. Determining whether the inventor of a patent alleged to be infringed was the first inventor could also be decided by the court as an invalidity defense in an infringement action since prior invention by another was sufficient to invalidate a patent. Gone also will be the difficulty of determining if a prior patent or application is prior art against a pending application when being examined by the Patent Office or against an issued patent under a validity challenge in litigation since an inventor will no longer be able to swear behind a previously filed published patent application or issued patent by proving an earlier invention date. This uncertainty and expense will be eliminated, at least for many situations, by the “first-to-file” system.

New Definition of “Prior Art”

“Prior art” is a key consideration affecting whether to file for a patent, whether a patent will ultimately be issued, and whether, if issued, the patent will be legally enforceable. The AIA has retained some features of prior law but has made some significant changes.

An invention is not novel if patented, described in a printed publication, in public use, on sale or otherwise available to the public before the effective filing date of a patent application for invention. There is no longer a one-year grace period under the AIA, with an exception for disclosures by the inventor of his own invention and by others who have derived the information disclosed from the inventor. However, disclosures by third-parties who independently arrived at the invention will be used as prior art against the inventor. An inventor can no longer avoid prior art occurring before his filing date by proving he conceived of his invention prior to such events by others which occurred less than one year prior to the inventor’s effective filing date.

"On sale" and "in public use" activities are no longer limited to such activities which occur in the United States. Being “on sale” or “in public use” anywhere in the world will now be prior art. It is unknown if the court made “experimental use” defense will survive and excuse sales and public uses of inventions for the purpose of testing the claimed invention.

Patent applications and issued patents by another inventor with an effective filing date earlier than the effective filing date of an inventor are now prior art, once published or patented, without regard to who invented first. The “effective filing date” is the actual filing date, or if priority is claimed on a prior application, the filing date of the prior application. Unpublished patent applications are not prior art, although a subsequent published application or issued patent that claims priority on the unpublished patent application is prior art as of the effective filing date of the unpublished patent application.

This provision goes into effect on March 16, 2013.

New Exceptions to “Prior Art”

Several exceptions are provided by the AIA to the above-identified categories of prior art.

Disclosures one year or less before the effective filing date of an inventor will not be prior art if made by the inventor (or his joint inventor) or by another who obtained the subject matter disclosed directly or indirectly from the inventor or his joint inventor. In other words, an inventor’s own disclosures and disclosure made by others disclosing information obtained from the inventor will not be prior art against the inventor’s application if he file no more than one year after the disclosure – a one year grace period for his own disclosures and disclosures of information obtained from the inventor.

Disclosures by others one year or less before the effective filing date of an inventor will not be prior art if the subject matter disclosed had previously been publicly disclosed by the inventor (or his joint inventor) or by another who obtained the subject matter disclosed directly or indirectly from the inventor or his joint inventor. In other words, disclosures by others will not be prior art against

an inventor's subsequent application if the inventor or another obtaining the information from the inventor had previously publicly disclosed the invention and the inventor files his application no more than one year after the other person's disclosure – a one year grace period for disclosures by other inventors if the inventor or someone obtaining the subject matter disclosed from the inventor was first to make a public disclosure of the invention (note that the inventor's own public disclosure will become prior art against him after one year).

Published patent applications and issued patents by another person, even with an effective filing date earlier than the effective filing date of an inventor, will not be prior art to the extent they disclose subject matter obtained directly or indirectly from the inventor (or his joint inventor). In other words, an earlier patent application or patent by another on subject matter derived from the inventor will not be prior art against the inventor. Presumably the publication or issuance will be a disclosure that triggers the one year grace period first mentioned since derived from the inventor.

Published patent applications and issued patents by another person, even with an effective filing date earlier than the effective filing date of an inventor, will not be prior art to the extent the subject matter was publicly disclosed by the inventor (or his joint inventor) or by another who obtained the subject matter disclosed directly or indirectly from the inventor or his joint inventor before the effective filing date of the other person's patent application or patent. In other words, if the inventor or another obtaining the information from the inventor publicly discloses his invention before another files a patent application on the invention, the patent application and patent that results is not prior art against the inventor's subsequently filed patent application. Being first to publicly disclose blocks subsequent patent applications filed by others from being prior art against the later filed application of the first inventor to publicly disclose his invention (note that the inventor's own public disclosure will become prior art against him after one year).

Published patent applications and issued patents by another person, even with an effective filing date earlier than the effective filing date of an inventor, will not be prior art to the extent the subject matter in the prior patent application/patent and the inventor's patent application, not later than the effective filing date of the inventor's patent application, were owned by the same person or subject to an obligation of assignment to the same person. In other words, if the same person owns it all, the prior application/patent is not prior art against the subsequent application. A commonly owned prior application will not constitute prior art (note that other type public disclosures, such as a publication, public use or sale prior to the effective filing date of the inventor's effective filing date, will be prior art).

In summary:

If a disclosure was made by the inventor, or someone obtaining the information from the inventor, it will not be prior art against the inventor for one year after the disclosure. However, disclosures of third-parties who independently arrived at the invention will be prior art against the inventor.

If the inventor, or someone obtaining the information from the inventor, made the first public disclosure, a subsequent disclosure by another inventor of the same subject matter will not be

prior art for one year after the disclosure by the other inventor. However, the public disclosure by the inventor will be prior art one year after that public disclosure.

If the subject matter of a patent application or patent by another was obtained from an inventor, then it will not be prior art against the true inventor.

If the inventor, or someone obtaining the information from the inventor, made a public disclosure of the invention, and before the inventor files his application, another inventor files an application, the application by the other inventor will not be prior art. However, the public disclosure by the inventor will be prior art one year after that public disclosure.

If the patent application by the inventor and another are owned by the same person (or subject to an obligation to assign to the same person) no later than the filing date of the second application, then the first application is not prior against the second filed application.

These provisions go into effect on March 16, 2013.

A Hybrid System

While the AIA is described as changing the U.S. from a first-to-invent system to a first-to-file system in an attempt to harmonize U.S. patent laws with those of most other countries, in actuality, the AIA created a new system unique to the United States. First, most countries have an absolute novelty standard whereas the U.S. continues to provide inventors with a one-year grace period for disclosures by the inventor. Even more unique is the result that flows from the prior art exceptions discussed above when one inventor makes the first public disclosure of an invention but is second to file his patent application.

In particular, the first public disclosure prevents a subsequent second disclosure of the invention by another true inventor from being prior art for one year against the subsequently filed application of the inventor who made the first public disclosure. Additionally, even if another true inventor files a patent application before the first-to-disclose inventor, and thus is the first-to-file inventor, that first filed application is not prior art against the second filed application by the first-to-disclose inventor. The first-to-disclose inventor is protected against both any subsequent disclosures by legitimate inventors of the same invention and from any subsequent patent applications filed by legitimate inventors of the same invention even if filed before the application of the first-to-disclose inventor. By making the first public disclosure, that first disclosure is prior art against the application by another inventor even though the other inventor files the first application. It should be remembered that a public disclosure can be via a printed publication, public use, a sale or otherwise making the invention available to the public.

While being first to invent no longer has any role in determining who obtains a valid patent in the U.S. for an invention as between two inventors of the same invention, the first inventor to make public his invention assures himself that no other inventor can patent the invention or become prior art against him either by making a public disclosure or by filing a patent application. Effectively, by making the first public disclosure of the invention, the first-to-disclose inventor gets a one year grace period in which to file his application without his own public disclosure being prior art against him and without another inventor being able to block him by filing the first application on

the invention. Thus, the U.S. has create two paths to winning the patent race, one, be the first to file a patent application (assuming nobody makes a public disclosure of the invention before you file the application), or two, be the first to publicly disclose the invention (assuming nobody files an application on the invention before your public disclosure). Of course, filing a patent application takes time and cost money, whereas making a public disclosure of the invention can be done quickly at no cost.

One downside to using the “first-to-disclose” approach is the impact on foreign patent rights. As noted, in most countries a public disclosure before filing a patent application immediately results in loss of patent rights in that country, most times without regard to where the public disclosure occurred. When foreign patent rights are not of concern, being first to publicly disclose an invention can be a winning strategy and is particularly attractive for a start-up or any company short on cash.

Another potential downside is that the first-to-disclose inventor may find another person has derived/copied the invention and filed his own application before the first-to-disclose inventor files his application. This puts the first-to-disclose inventor under the burden of identifying such an application exists and proving the other persons copied, or seeking to invalidate in a court the patent that results if it has already issued. This can be costly, and if a patent does issue to another inventor, it could create serious problems with potential investors and customers. As discussed below, the window for such challenges is limited. If timely action is not taken, the opportunity to make the challenge will be lost and the first-to-disclose inventor may find his patent application blocked by the application or patent of the first-to-file inventor who derived/copied the invention from the public disclosure made by the first-to-disclose inventor.

Derivation Proceedings (in the Patent Office)

The “first-to-file” system eliminates patent interferences, a proceeding in the Patent Office to determine who among multiple applicants claiming the same invention was the first to invent the invention. Instead, the AIA creates a more limited “derivation” proceeding, whereby an applicant in a later application petitions against an earlier application that (1) names an inventor who is believed to have “derived” the claimed invention from the second-to-file inventor, and (2) was filed without authorization of the second-to-file inventor. This is not a proceeding between two inventors who independently invented the same invention. In that situation the first-to-file inventor gets the patent.

A derivation petition must be supported by substantial evidence, which could be difficult burden to satisfy since essentially the second-to-file inventor must prove the first-to-file inventor derived the invention from him (i.e., copied from him). People who copy usually do not admit it or leave an evidence trail which is easy to follow. This places an onus on inventors to better safeguard their inventions, and to promptly apply for patent protection so as not to be left in the position of the second-to-file inventor. The derivation petition must be filed within a narrow one-year time period based on the publication date of the application of the second-to-file inventor. If no derivation petition is timely filed, presumably the Patent Office will cite the published application of the first-to-file inventor against the application of the second-to-file inventor and no patent will issue to the second-to-file inventor even though the first-to-file inventor may have copied the invention from the second-to-file inventor.

This provision goes into effect on March 16, 2013.

Derived Patents (court action)

What if the second-to-file inventor does not timely file a derivation petition to start a derivation proceeding (e.g., is unaware of the other patent application on the same invention), and the Patent Office inadvertently issues patents claiming the same invention to both the first-to-file inventor and the second-to-file inventor? The AIA provides that the owner of a patent may bring a civil action against the owner of another patent that claims the same invention and has an earlier filing date to prove the first-to-file inventor derived/copied the invention from the second-to-file inventor. The action must be filed before the end of the one-year period beginning on the date of the issuance of the patent of the first-to-file inventor containing a claim allegedly derived/copied from the second-to-file inventor. Once beyond this window the second-to-file inventor appears to be without a remedy to challenge the patent rights of the first-to-file inventor. Presumably others could still challenge the validity of the patent of the first-to-file inventor based on him not being a true inventor of the subject matter of his patent, e.g., as a defense in an infringement action.

One problem with a derivation determination by the Patent Office or a court is that the key term – “derived” – is not defined. If given a broad meaning, the derivation proceedings could cover more than just copying and could be like the copyright doctrine of derivative works where using some information obtained from the prior inventor is enough for an invention to be “derived.”

This provision goes into effect on March 16, 2013.

Post-Grant Review Proceedings

Currently, a third party can only challenge the validity of an issued patent in the Patent Office through two proceedings: an *ex parte* reexamination and an *inter partes* reexamination. The AIA, while leaving the *ex parte* reexamination process untouched, creates two additional processes to replace *inter partes* reexamination: (1) a post-grant review procedure and (2) an *inter partes* review procedure. The post-grant review and *inter partes* review procedures allow a third party to actively participate in challenges to patents through discovery processes and other means. A later-filed civil action will be automatically stayed if a post-grant or *inter partes* review procedure is pending, except under limited circumstances.

The post-grant review procedure allows a third party to challenge a patent on most invalidity issues. A petition for post-grant review must be filed within nine months of the issuance of the patent. The petition must show that it is more likely than not that at least one claim of the patent is unpatentable, or must raise a novel or unsettled legal question in order for the petition to be granted. The third party can use patents, printed publications and other factual evidence, supported by affidavits and declarations, to support its challenge or question. The petitioner has the burden to prove its challenge by a preponderance of evidence during the process.

When a third party misses the opportunity to request a post-grant review, an *inter partes* review procedure may be initiated. In order for an *inter partes* review petition to be granted, the requester

must show that there is a reasonable likelihood that he or she would prevail with respect to at least one of the claims challenged in the request. Unlike the post-grant review, the petition is limited to challenges based only on patent references and printed publications. The petitioner has the burden to prove its challenge by a preponderance of evidence.

Both the post-grant review procedure and *inter partes* review procedure begin September 16, 2012.

Supplemental Examination

Yet another post-grant procedure was created by the AIA. It is a supplemental examination procedure that allows a patent owner to cure inequitable conduct or mistakes that occurred during the prosecution of an issued patent. Patent owners can submit previously undisclosed information or fix incorrect information that may affect the enforceability of a patent. If the submitted information raises a substantial new question of patentability, an *ex parte* reexamination procedure will be commenced. If no new substantial question is raised, such information cannot be used at a later date to show that the patent is unenforceable. However, the patent may not be protected by this process if the patent is challenged before the submission, or, in some cases, during the supplemental examination and resulting reexamination.

The supplemental examination procedure begins September 16, 2012.

Preissuance Submissions

A third party may submit any publication of potential relevance to a patent application before the earlier of a notice of allowance, or the later of (1) six months after the date of first publication or (2) the date of the first rejection. This new provision allows anyone to challenge another's filings, by bringing forward prior art during prosecution, which is a more cost effective approach to limit a competitor's patent rights compared to litigation or reexamination proceedings. This new third party submission provision begins September 16, 2012.

Prior Commercial Use Defense to Infringement

Since 1999, alleged infringers of business method patents have had access to a "prior use" provision that can constitute a defense against infringement, provided certain conditions are met. For patents issued on or after the date of enactment of the AIA, the prior use defense can be applied, subject to certain exceptions, to patent infringement claims covering a much broader range of subject matter "consisting of a process, or consisting of a machine, manufacture, or composition of matter used in a manufacturing or other commercial process."

The prior use defense can be raised if (1) such person, acting in good faith, commercially used the subject matter in the United States and (2) such commercial use occurred at least one year before the earlier of either a) the effective filing date of the claimed invention or b) the date on which the claimed invention was disclosed to the public. Further, the defense is a personal defense that cannot be conveyed to others unless it is acquired through a bona fide transfer of the entire enterprise or line of business to which the defense relates. The defense will only apply to sites

where the commercial use occurred before the later of the effective filing date of the claimed invention or the date of the assignment or transfer of such enterprise or line of business. The useful end result (e.g., a product) made by a person entitled to assert the prior use defense is treated as if sold by the patent owner to thereby effectively prevent the patent owner from suing a person acquiring the end result for patent infringement.

This provision went into effect on September 16, 2011.

Best Mode Defense

The AIA eliminates the best mode invalidity defense for infringers in a patent suit, explicitly excluding the failure to disclose the best mode as a defense in litigation. However, the AIA does not eliminate the best mode requirement entirely - an inventor must still comply with the best mode requirement during prosecution. In other words, the Patent Office can reject claims if the inventor fails to disclose the best mode. There are still questions as to whether or not invalidity can be found based on the failure to satisfy the best mode requirement in post-grant review proceedings.

The best mode provision applies to all litigation proceedings commenced on or after September 16, 2011.

False Patent Marking

Previously, any person could bring an action against a defendant for false marking, and the penalty awarded was split evenly between the plaintiff and the U.S. government. The person bringing the lawsuit could recover up to \$500 in damages for each product mismarked, regardless of whether damage occurred to anyone, including the party bringing the lawsuit. In the past few years, a cottage industry arose of lawyers suing patent owners who had inadvertently neglected to remove the marking of expired patents on products or put a patent marking on a product not actually covered by the patent. The Act remedies this by requiring a plaintiff bringing a false marking suit to show competitive injury resulting from the alleged false marking, and by limiting the damages to that adequate to compensate for the injury.

The AIA also expressly makes marking of a product with a patent that covered that product but has expired no longer a violation.

The new marking provisions apply to cases that are pending on, or commenced on or after September 16, 2011.

Virtual Marking

The AIA also permits virtual patent marking. In lieu of physically marking products with patent numbers, the patent owner can “virtually” mark their product with the word “patent” or abbreviation “pat,” along with a publicly accessible website address that associates the product with the patents covering the product. This eliminates the difficulty and expense of changing

molds and trying to mark common parts with patent numbers where not all products using the part are covered by all the same patents.

This provision went into effect on September 16, 2011.

Unpatentable Subject Matter

The AIA provides: (i) with limited exceptions, that claims directed to any strategy for reducing, avoiding or deferring tax liability are not patentable; and (ii) that claims "directed to or encompassing a human organism" are not patentable.

This provision went into effect on September 16, 2011.

Advice of Counsel / Willful Infringement

The AIA codifies the Federal Circuit's 2007 decision in the Seagate case that held the failure by an accused infringer to obtain the advice of counsel does not give rise to an adverse inference with respect to willful infringement.

The failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent, or the failure of the infringer to present such advice to the court or jury, may no longer be used to prove that the accused infringer willfully infringed the patent or that the infringer intended to induce infringement of the patent.

Suing Multiple Defendants on the Same Patent

The number of defendants allowed in a patent infringement lawsuit has also been altered. Before the AIA's enactment, plaintiffs frequently filed one lawsuit against different defendants whose only connection was that they were all accused of infringing the same patent. The AIA explicitly states that accused infringers cannot be defendants to the same suit if their only connection is that they are accused of infringing the same patents. For a patent infringement suit to have multiple defendants, it must arise out of the same transaction or occurrence, and any right to relief must be asserted against the defendants jointly and/or severally.

This affects all patentees, but especially non-practicing entities, i.e., entities that own patents but do not practice the patented inventions (sometimes pejoratively referred to as "patent trolls"), as these entities frequently sued many defendants in a single case to facilitate management of pending patent litigation.

This provision was effective on September 16, 2011, and applies to any suit filed on or after that date.

Prioritized Examination

Applicants are now able to pay an additional \$4800 (\$2400 for a small entity) to file a request for prioritized examination of a nonprovisional application for an original utility or plant patent.

The AIA also requires the Patent Office to establish regulations that allow for the expedition of prosecution of applications that are important to the national economy or national competitiveness, without the payment of such increased fees.

This provision went into effect on September 26, 2011 (10 days after enactment of the AIA).

Fee Diversion

One of the most controversial aspects of the patent reform debate pertained to the practice of fee diversion, which arises because the Patent Office takes in an amount in fees that exceeds its appropriation. The Senate version of the AIA passed in March 2011 provided for the creation of a fund that would have allowed the PTO to roll over excess funds into future fiscal years. However, in the House version passed in June 2011 that became the template for the final legislation, this provision was removed and replaced with a newly established “Patent and Trademark Fee Reserve Fund” to be held in the treasury and into which excess fees will be deposited. This approach does not cleanly put the fee diversion issue to rest, and the details of how the reserve fund will be managed in future years remain unclear.

This provision went into effect on October 1, 2011.

Changes with Patent Office Fees

In addition to increasing many patent service fees, the AIA creates a separate surcharge fee. The surcharge fee charges an additional 15% on all general fees, maintenance fees, patent search fees, and request for continued examination fees.

The AIA established a micro-entity discount of 75% on fees. To qualify as a micro-entity, the inventor must first qualify as a small entity. In addition, the inventor must not have filed more than four nonprovisional applications previously in the U.S. The inventor, or his assignee, cannot have a gross income that exceeds three times the U.S. median household income. In addition, institutes of higher learning, and employees who receive a majority of income from such institutes, qualify as micro-entities. The Patent Office has not announced when the micro-entity discount will be available.

These provisions went into effect on September 16, 2011.

Inventions Resulting from Federal Funding

Under the AIA, nonprofit research institutions and small businesses who develop patented inventions at federally owned facilities may now keep up to 85 percent of the royalties and profits derived from such patent inventions as opposed to the 25 percent retention permitted under prior law.

This provision went into effect on September 16, 2011.

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