

The America Invents Act

By Michael Coblenz

Partisan fighting has ground Washington nearly to a halt, but a few bills have sneaked through Congress. One of the most important, according to the rhetoric, is the 2011 Patent Reform Bill, also known as the America Invents Act¹ (“AIA.”) One of the sponsors of the bill, Representative Lamar Smith (R-Tex), said the new patent law “will be one of the most significant jobs creation bills enacted by Congress this year.”² In his speech before Congress on Sept 8, President Obama said that patent reform “will speed up the outdated patent process, so that entrepreneurs can turn a new idea into a new business as quickly as possible.”³

The law, which Obama signed on September 16, is highly complex and changes major portions of the current patent law.⁴ According to retired Judge Paul Michel of the U.S. Court of Appeals for the Federal Circuit (the court dealing exclusively with patent issues), “many sections [of the bill] are poorly written and ambiguous, [which will create] heightened uncertainty for the rest of the decade.”⁵

So the new law will either create jobs or uncertainty. To sort out which, this article will look at how the new law changes existing patent practice. The major changes fall into four broad areas: (1) first to file; (2) third party challenges; (3) litigation issues, and (4) fee related issues. It is arguable that changing the United States to a first to file system will create a great deal of confusion. The changes to third party challenges and litigation issues may

streamline both processes and reduce costs. And the new fee provisions should allow the patent office to hire more examiners, which will do more than anything to improve the patenting process.

FIRST TO FILE

The United States had long been the only nation to award a patent to the first person to create the invention rather than the first person to file an application. The AIA harmonizes the United States with the rest of the world, but profoundly changes the way the U.S. patent system deals with inventors. Since 1836, the United States granted patents to the first inventor regardless of who filed the first application.⁶ While it is not uncommon for many people to be working on the same technology, it is also not uncommon for more than one person to submit an application for a similar invention. In those situations the patent office would conduct an “interference” proceeding to determine if one application interfered with another. Throughout American history there have been epic interference battles, perhaps none more famous than the question of whether Alexander Graham Bell or Elisha Gray invented the telephone.⁷ Presumably switching to the first to file system will remove the risk and cost of a potential interference fight. The reality, however, is that interferences are rare: in 2010 there were 52 interference proceedings⁸ out of over 500,000 patents filed.⁹

A number of provisions of the patent law had to be changed to create the first to file system. The main change involves the definition of “invention.”

An invention must be new (or novel). Under the old law this meant that no one else had previously patented the invention, filed a patent application, or could show that they had “invented” the invention earlier and had not “abandoned, suppressed, or concealed” it.¹⁰ The new law greatly simplifies this. Now an invention is new as long as no one has previously filed an application or obtained a patent on the same invention.¹¹ This one change alters the system from first to invent to first to file. Not only must an invention be new, it must be more than an obvious variation of an existing invention (non-obviousness). Under the previous law non-obviousness was determined at the time of invention, whenever that was, but the new law moves the issue of non-obviousness up to the filing date of the invention.¹²

Another unique aspect of U.S. Patent law is the one year grace period. In the United States an inventor can disclose the invention—through an academic article, a prototype, or sales activities to test the market—up to one year before filing a patent application.¹³ This grace period still exists, but because of the first to file provisions, an inventor who publicly discloses an invention runs the risk that someone else may learn from the disclosure and file an application on a related invention before the original inventor is able to file. If this happens the true first inventor can prove his priority through a “derivation proceeding.”¹⁴ This allows the later filer the opportunity to show that the earlier filer derived the earlier filed invention from the later filer’s disclosure. Because of the first to file system this only applies if the original inventor files the application within one year of the disclosure.

The most common complaint about changing to the new first to file system is that it will force some companies to file patent applications early in the invention process in order to win the race to the patent office. This is particularly true in crowded fields where many people are working on similar ideas. The concern is that this will primarily benefit companies with the financial resources to file multiple applications, and harm small businesses and individ-

ual inventors who lack those resources.

The U.S. is also unique in that a patent has to be filed in the name of the actual inventor. Other countries allow an organization to obtain patents on inventions developed by their employees. The U.S. doesn't allow this, although employees are often contractually required to assign inventions to employers. The "first to file" system creates a situation that may allow a company to by-pass an employee inventor. Under the first to invent system there was never a rush to file an application. The new need for speed creates the possibility that an absent inventor, a recalcitrant inventor, or a wily inventor could withhold assistance in order to extract concessions from the employer. Fortunately Congress is never shy about protecting large corporations, so they inserted a provision that allows an assignee, or a party that has the contractual right to be an assignee (an employer), to file a patent application without the signature or cooperation of all of the inventors.¹⁵ Now corporations can prosecute an application without the assistance of an employee inventor, which significantly erodes the rights of inventors.

THIRD PARTY CHALLENGES

The second major group of changes involve provisions that allow a third party, most likely a competitor, greater opportunities to challenge the validity of a patent application or an issued patent outside of litigation. Previous law provided limited avenues for third party challenges,¹⁶ but new provisions streamline the process and broaden the scope of material that can be introduced. The first new provision allows any third party to submit any relevant information regarding a pending patent application. Patents are now published 18 months after the earliest filing date, so many applications are public long before they issue as a patent, which gives competitors plenty of time to learn about an application and find potentially disqualifying information. This material, called "prior art," can be a patent or other printed publication such as an article in a technical journal or a sales brochure. The challenger can submit this information, along with a detailed explanation

of the relevance of the material to the application.¹⁷ The patent examiner will review the submitted material and determine if it is pertinent to the application. In some cases the examiner could determine that the new material prevents patentability. In other cases the new material could result in narrowing the scope of patent. But this process could also strengthen the patent by more clearly defining it over the prior art.

The new law also creates two new post-grant review procedures. Previously any third party could, at any time, file a request for reexamination, which sent the application back to the examiner for review.¹⁸ The new law creates two new proceedings, a "post grant review" and an "inter-parties review." The "post-grant review" must be filed within nine months of the issue date of the patent, and allows anyone to petition the patent office to review the validity of an issued patent.¹⁹ The petition for post-grant review must set out in detail the basis of the challenge, describing the pertinent prior art and explaining how it is relevant to the validity of the patent.²⁰ The patent owner is given the opportunity to respond,²¹ and then the matter is sent for review to a three judge panel of the newly created Patent Trial and Appeal Board. This post grant review cannot be filed by parties involved in litigation.²²

Once the nine month "post grant review" window passes, it is still possible for a third party to challenge a patent through an "Inter Partes review." The Inter Partes Review replaces the previous "Inter Partes Reexamination." It requires the filing of a detailed petition explaining the basis for the challenge,²³ gives the patent owner the opportunity to respond,²⁴ and is conducted before a three judge panel of the new Patent Trial and Appeal Board.²⁵

These provisions are intended to create an inexpensive avenue to challenge a patent and to avoid litigation. Patent litigation is generally extremely costly and time consuming, and these provisions should allow a party concerned about infringement to obtain a dispositive opinion on the validity of the patent and the scope of the claims before developing a competing product.

LITIGATION ISSUES

There are also a number of new provisions designed to directly streamline patent litigation. First, a new defense, based on prior commercial use, has been added in light of the new first to file system. Many companies sell products without patent protection. If a company that has been selling a product gets sued for patent infringement, it can assert this prior commercial use as a defense to the charge of infringement. The defendant need only show that its sales were more than a year before the filing date of the patent at issue.²⁶ And since patent rights are now based on the date of filing the application, the inventor can no longer show that the date of invention preceded the defendant's date of first commercial use. The new provision also specifically includes regulatory review as a "commercial use." This means that a company that seeks FDA (or other government agency) approval before filing a patent application cannot have a second manufacturer come in behind them and get a patent without prior FDA review, and then sue for infringement.²⁷

The new law limits the avenues for an alleged infringer to challenge the validity of an existing patent during litigation. Accused infringers almost always argue that it did not infringe because the patent at suit was not valid.²⁸ Claims of invalidity assert that the inventor did not meet the established requirements for patentability, and so the patent is unenforceable. As noted above, an invention must be new and non-obvious, but there are a number of disclosure requirements that also must be met to obtain a patent. The inventor must fully disclose the invention, which means that there must be enough information to allow someone reading the patent to recreate the invention (the enablement requirement²⁹) and must also describe the preferred version, or "best mode" of the invention.³⁰ The new law eliminates the "best mode" requirement as a basis for claiming patent invalidity during litigation.³¹

The third litigation provision deals with the reliance on an opinion of counsel as a defense to charges of willful patent infringement. It is established

practice that a party sued for infringement could avoid a claim for willfulness if they had previously obtained advice of counsel regarding whether or not their competing product infringed the patent at issue. Often plaintiffs would use this as a sword, claiming that a party that did not seek advice of counsel was being willfully ignorant about infringement, and would use the lack of advice of counsel as evidence to show willfulness.³² The new law eliminates the lack of an opinion of counsel as proof of willfulness, but does not change the ability of a defendant to use it to disprove willfulness.³³

FEES

The changes that will arguably have the most impact on the patenting process relate to fees and the funding of the patent office. The new law gives the Patent Office the ability to set their own fees, and also creates a new category of inventor that qualifies for greatly reduced fees.³⁴ Currently a small entity (defined as a company of less than 500 people as well as universities) receives a 50 percent reduction in patent fees. The cost to file a new utility application is currently \$1250 for a large entity, but only \$625 for a small entity. (There is also a special fee reduction for filing online that is available only for small entities, which brings the filing fee down to \$530.) The new law creates a new “micro-entity” that will receive a 75 percent reduction in fees³⁵ which means that a micro-entity would only pay \$312.50 (or \$265 if filed on line). There is no doubt that this reduction in fees will help some small inventors, but the

largest cost to file a patent is the attorney’s fee, not the filing fee. A patent for a simple invention can easily cost over \$4000 for a written description and preparation of the drawings, and the reduction in patent office fees won’t change this. By the way, a micro-entity is a small entity (as defined above) that has filed less than four previous patents and has gross revenue no more than three times the median US income. Universities are also now micro-entities.³⁶

The new law also creates a new fee for a “prioritized examination” that will move an application to the front of the line for examination. The new fee is \$4800 for large entities, and \$2400 for small.³⁷ This will definitely speed up the process, but only for those willing and able to pay.

The greatest impact of the new law on improving the patenting process will be the provision that allows the Patent Office to set its own fees to cover its operating costs.³⁸ This means that the director of the Patent Office will have the authority, and now the money, to hire more examiners. Currently there is a nearly 30 month wait between filing an application and the receipt of the first substantive review by a patent examiner (known as an office action), and it typically takes over three years to obtain a patent. The consensus from the Patent Office and the Commerce Department is that the new fee setting provisions will allow the Patent Office to hire new examiners, which will reduce the time to the first office action, and increase the speed of the patenting process.³⁹

MISCELLANEOUS CHANGES

The new law includes a number of technical changes that are only of interest to patent practitioners, but there are two that are quirky enough to warrant mention. First, a new provision prevents the patenting of tax avoidance strategies.⁴⁰ Second, the law codifies a long standing ban on patents “directed to or encompassing a human organism.”⁴¹

The new law also changes the law on patent marking.⁴² In order to sue for infringement, a patent owner must have notified potential infringers of their patent rights. This is done by marking either the product or its packaging as

appropriate.⁴³ The law also says that it is wrong to falsely mark an invention and say that there is a patent when there is not. Few companies lie outright, but it is not uncommon for a company to continue selling marked products after the patent has expired. A few years ago, in *Forest Group, Inc. v. Bon Tool Co.*, the Court of Appeals for the Federal Circuit held that a company guilty of false marking could be liable for damages of \$500 for each falsely marked article.⁴⁴ This meant that a company that sells thousand of units of an improperly marked product could face millions in damages. The marking law allows a successful plaintiff to recover one half of the statutory damages, with the other half going to the government.⁴⁵ After *Bon Tools* there was a rush of false marking cases (many filed by patent attorneys), the most famous involving Solo Cup, which sold millions of marked cup lids after the patents had expired.⁴⁶ Congress wisely stepped in, and the new law says that a party can sue only if they have actually been damaged by the false marking, and limits damages to the actual damages incurred by the plaintiff.⁴⁷

CONCLUSION

This law makes major revisions to patent practice and will have a significant impact on inventors. Some changes will streamline the system and will eventually speed up the patenting process, but only time will tell whether it creates confusion or jobs. Hopefully we will find out more quickly than Judge Michel predicted. ☺

ENDNOTES

1. The Leahy-Smith America Invents Act (“AIA”), Pub.L. 112-29, ___ Stat. ___ (2011), enacted September 16, 2011, makes substantial changes to 35 U.S.C. §1 *et. seq.*
2. “Biggest Overhaul of Patent System Since 1952 Passes Senate,” Kathleen Hunter and Susan Decker, Bloomberg Businessweek, Sept 9, 2011, on line at: <http://www.businessweek.com/news/2011-09-09/biggest-overhaul-of-patent-system-since-1952-passes-senate.html>.
3. *Id.*
4. 35 U.S.C. §1 *et seq.*



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LLM in Intellectual Property law from the University of Houston. He can be reached at mcoblenz@windstream.net.

5. What Effects will the American Invents Act Have on U.S. Patent law? Corporate Counsel, Sept 12, 2001. Jan Wolfe.
<http://www.law.com/jsp/lawtechnologynews/PubArticleLTN.jsp?id=1202514757133&slreturn=1>
6. Act of July 4, 1836, ch. 357, Sect 15, 117.
7. Elisha Gray versus Alexander Graham Bell patent litigation, see e.g. http://inventors.about.com/od/gstartinventors/a/Elisha_Gray.htm.
8. (http://www.uspto.gov/ip/boards/bpai/stats/process/fy2011_aug_b.jsp)
9. (http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.htm)
10. Old 35 U.S.C. §102(g)(1).
11. New 35 U.S.C. §102.
12. New 35 U.S.C. §103.
13. Old 35 U.S.C. §102(b)
14. New 35 U.S.C. §291.
15. New 35 U.S.C. §115 & §118.
16. New 35 U.S.C. §122(c) and 35 U.S.C. §301.
17. New 35 U.S.C. §122(e).
18. Old 35 U.S.C. §302.
19. New 35 U.S.C. §§321 to 329.
20. New 35 U.S.C. §322.
21. New 35 U.S.C. §323.
22. New 35 U.S.C. §325.
23. New 35 U.S.C. §312.
24. New 35 U.S.C. §313.
25. New 35 U.S.C. §316 & §318.
26. New 35 U.S.C. §273.
27. New 35 U.S.C. §273(c)(1).
28. Old 35 U.S.C. §282.
29. New 35 U.S.C. §112.
30. New 35 U.S.C. §112.
31. New 35 U.S.C. §282.
32. See, e.g. *In re Seagate Tech.* 497 F.3d 1360 (Fed.Cir. 2007).
33. New 35 U.S.C. §298.
34. 37 CFR §Sect 1.16 to 1.28.
35. New 35 U.S.C. §123, and mandated changes to CFR. The America Invents Act, Sec. 10. Fee Setting Authority.
36. New 35 U.S.C. §123.
37. New 35 U.S.C. §41.
38. The America Invents Act, Sec. 10 (a)(2).
39. See, for example, Commerce Secretary Gary Locke Letter to the House Judiciary committee, available on line at: http://www.uspto.gov/aia_implementation/viewshrl249-america-invents-act.pdf
40. The America Invents Act, Sec. 14. Tax Strategies Deemed Within the Prior Art.
41. The America Invents Act Sec. 33. Limitations on Issuance of Patents.
42. The America Invents Act, Sec. 16. Marking, which changes 35 U.S.C. §292.
43. New 35 U.S.C. §287.
44. *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295 (Fed.Cir.2009)
45. Old 35 USC §292.
46. *Pequignot v. Solo Cup Co.*, 608 F.3d 1356 (Fed. Cir. 2010)
47. New 35 U.S.C. §292.