

# America's New Patent System: An Overview of the America Invents Act

October 4, 2011

## I. Introduction

The United States has a new patent system. And a well-established patent system. Aspects of each will be used for many years to come, and particularly for defending and enforcing patents. The content and various effective dates of the *America Invents Act*, Pub. L. No. 112-29 ("AIA"), which was signed into law on September 16, 2011, should have immediate effects on patent strategies.

The most drastic changes include: (a) conversion from a first-to-invent system to a first-inventor-to-file system; (b) new activities that qualify as prior art; (c) new standards, time lines, and limits for *inter partes* reexaminations; (d) new post-grant review; (e) new supplemental examination proceedings; (f) the end of the "best mode" requirement; (g) limitations on joining parties accused of patent infringement; (h) for all practical purposes, the end of false patent marking claims; and (i) new "virtual" patent marking. Each of these issues is discussed briefly and then in more detail below, and a timeline showing various effective dates of the *America Invents Act* follows. Other changes sure to get attention, but which may have little effect overall, include: (j) reduced fees for "micro entities;" (k) new review proceedings for business method patents; and (l) the extended ability for third parties to submit prior art in pending patent applications. These are also discussed below.



## II. Executive Summary of AIA Provisions

### **(a) conversion from a first-to-invent system to a first-inventor-to-file system**

United States patents will be granted to the first inventor to file an application over the person who conceives of the invention first and diligently pursues it. Especially if an inventor is interested in pursuing patent rights outside the United States, it may be desirable to file provisional applications as quickly as possible. If patent rights are only desired in the United States, a strategy of early public disclosure could be considered.

### **(b) new activities that qualify as prior art**

Public use or sale outside the United States more than one year before a patent application is filed will bar a valid patent from issuing. Any inventor who is considering filing an application on an invention that was disclosed or sold outside the United States more than one year previously must do so before March 16, 2013.

### **(c) new standards, time lines, and limits for *inter partes* reexaminations**

The standard for initiating an *Inter partes* reexamination has been raised. In addition, the patent owner will have a chance to respond before the Patent & Trademark Office ("PTO") decides to grant or deny a request. Among other changes, limitations will be placed on when *inter partes* reexaminations may be requested, possible restrictions may apply to the number of *inter partes* proceedings, and the PTO will be required to substantially speed up *inter partes* proceedings.

### **(d) new post-grant review**

New post-grant reviews will be very similar to *inter partes* reexaminations. However, any ground of invalidity may be raised in a post-grant review and a request for post-grant review must be filed within nine months after the patent issues or reissues.

**(e) new supplemental examination proceedings**

If used before litigation, supplemental examination proceedings will be a tool to shield patents against claims of inequitable conduct.

**(f) the end of the "best mode" requirement**

The longstanding requirement that a patentee must disclose the best mode in which he has contemplated practicing his invention will no longer apply. Applicants may now choose to disclose less information in their patent applications, and patent owners have no need to worry about a best mode defense in any newly-filed cases.

**(g) limitations on joining parties accused of patent infringement**

Defendants can no longer be joined or consolidated solely on allegations that they each infringed the patent at issue, unless they waive the new restriction on joinder/consolidation. As a result, the number of suits filed by non-practicing entities ("NPEs") will likely decline, and companies approached by NPEs may find that the NPEs are less likely to actually sue.

**(h) for all practical purposes, the end of false patent marking claims**

False patent marking cases can now only be filed or maintained by the government and competitors who have suffered a competitive injury as a result of the false marking. In cases brought by competitors, damages are limited to compensation for the injury. This should essentially eradicate false patent marking claims.

**(i) new "virtual" patent marking**

Instead of having to include the patent number on patented products to secure damages, you can now include "patent" or "pat." along with an internet domain address where the patent number is provided and clearly linked to the product. But because virtual marking could be eliminated, it may be desirable to mark traditionally in situations where it could be expensive to later add the patent number to the product.

### III. Detailed Discussion of AIA Provisions

#### (a) conversion from a first-to-invent system to a first-inventor-to-file system

Perhaps the most publicized portion of the AIA, the United States will grant patents to the first inventor to file an application over the person who conceives of the invention first and diligently pursues it. See AIA § 3. But importantly, applicants will no longer be able to freely swear behind references dated within one year prior to the application's priority date. See AIA § 3(b). Instead, such references will only fail to qualify as prior art if the applicant or someone who obtained the invention from the applicant made a public disclosure before the reference at issue. *Id.* This means that the first inventor to file will not always win. These changes will be effective for all applications having a priority date on or after March 16, 2013. AIA §§ 3(a), 3(n). As a result, interference proceedings will eventually be eliminated and derivation proceedings to determine if the first applicant derived the invention from the second applicant will occur. AIA §§ 3(i), 3(j).

Under the new first-inventor-to-file system, it will be more important for inventors to file applications early, and the use of provisional patent applications (which can be filed relatively quickly and inexpensively compared to nonprovisional patent applications) should expand. Examples are set forth below to illustrate the systems. In these examples, Inventor 1 would always win if he files a provisional application immediately upon conceiving the invention. A strategy of early public disclosure could also be used (as shown in Example 3) if the inventor is only interested in U.S. patent rights, but any such disclosure should have a date that is well corroborated.

#### Example 1:

- Inventor 1 conceives of an invention on January 1, 2013 and Inventor 2 conceives of the same invention on February 1, 2013.
- Inventor 2 publicly discloses the invention on February 15, 2013.
- Inventor 2 files a patent application on March 1, 2013.
- Inventor 1 diligently pursues the invention from January 30, 2013 and files a patent application on March 15, 2013.
- Inventor 1 did not publicly disclose the invention before filing the application on March 15, 2013.
- The first-to-invent system controls since the applications were filed before March 16, 2013. Inventor 1 wins because he conceived of the invention first and was diligent from the time before conception by Inventor 2 to the time Inventor 1 filed an application.

#### Example 2:

- Same facts as Example 1, but Inventor 2 files his application on March 16, 2013 and Inventor 1 files his application on March 17, 2013.

- The first-inventor-to-file system controls since the applications were filed on or after March 16, 2013. Inventor 2 wins because he filed first and did not derive the invention from Inventor 1.

Example 3:

- Same facts as Example 1, but Inventor 1 files his application on March 16, 2013 and Inventor 2 files his application on March 17, 2013.
- The first-inventor-to-file system controls since the applications were filed on or after March 16, 2013. Inventor 2 wins because the February 15, 2013 disclosure is prior art against Inventor 1, and because Inventor 2 did not derive the invention from Inventor 1.

### **(b) new activities that qualify as prior art**

Traditionally, patents have not been granted (or have been invalidated) if the invention was in public use or on sale in the United States more than one year before a patent application was filed. See 35 U.S.C. § 102 (b) ("A person shall be entitled to a patent unless the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States"). The limiting of an "on-sale" bar to acts occurring inside the United States has been codified since at least as early as 1897. See Patent Act of 1897, ch. 391, § 1, 29 Stat. 692 (1897).

For any application having a priority date on or after March 16, 2013, and for any patent issuing from those applications, this territorial limitation has been removed such that public use or sale outside the United States more than one year before a patent application is filed will bar a valid patent from issuing. AIA §§ 3 (a), 3(b), 3(n). So any inventor who is considering filing an application on an invention that he disclosed or sold outside the United States more than one year previously must do so before March 16, 2013. Nevertheless, if the invention was patented or disclosed in a printed publication more than a year before filing, even if outside the United States, a valid patent cannot issue. 35 U.S.C. § 102(b).

### **(c) new standards, time lines, and limits for *inter partes* reexaminations**

*Inter partes* reexaminations have proven to be a highly effective way to invalidate patent claims at the Patent Office. As of September 16, 2011, *inter partes* reexaminations ("*inter partes* reviews" when filed after September 16, 2012) are only granted if it is shown that "there is a reasonable likelihood that the requester would prevail with respect to at least one of the claims challenged in the request." AIA §§ 6(a), 6(c)(3). This is higher than the prior standard, where "a substantial new question of patentability" must be shown. See 35 U.S.C. § 312(a). The former Chief Judge of the Federal Circuit has noted that the "substantial new question of patentability" standard for granting reexamination requests is "almost no standard at all." See Raymond A. Mercado, *The Use and Abuse of Patent Reexamination: Sham Petitioning Before the USPTO*, 12 Colum. Sci. & Tech. L. Rev. 93, 98 (2011). With less than five percent of the first 1155 procedurally-correct *inter*

*partes* reexamination requests being denied for failure to show a substantial new question of patentability, *Reexamination Filing Data, supra*, even a substantial increase in denials would likely result in the vast majority of requests still being granted. However, the new ability (effective for requests filed on or after September 16, 2012) of patent owners to file a response to a request for *inter partes* review before the request is considered by the Patent Office (a "preliminary response") may be a useful tool for patent owners. See AIA §§ 6(a), 6(c).

As of September 16, 2012, *inter partes* reviews cannot be requested until after nine months after a patent is issued or reissued, and cannot be requested until any post-grant review under chapter 32 is terminated. AIA §§ 6(a), 6(c). Before September 16, 2012, there are no similar blackout periods.

*Inter partes* reexaminations completed by March 31, 2011 average over three years from the filing date to a reexamination certificate. *Reexamination Filing Data, supra*. And cases appealed to the Court of Appeals for the Federal Circuit have taken well over seven years. See, e.g., *inter partes* reexamination control number 95/000,017 (which took seven years, four months from the filing date to a reexamination certificate). For any *inter partes* reviews resulting from a request filed after September 16, 2012, a final, appealable determination is supposed to be issued within one year of granting the request for review (though this may be extended by six months for good cause and longer in the case of joinder). AIA §§ 6(a), 6(c). Instead of granting or denying reexamination within three months, which is the current requirement under 35 U.S.C. § 312, requests will have to be decided within three months of the patent owner filing a preliminary response (or within three months of when such response could have been filed if no response is actually filed). See AIA §§ 6(a), 6(c). The Director is tasked with setting the deadline for a preliminary response. Because the Patent Office may not be able to meet the one-year deadline, it would not be surprising for the preliminary response deadline to be relatively generous, or for requests for *inter partes* review to be denied on formal grounds at least initially. Moreover, it should be appreciated that, even if a final determination is issued within a year of granting a request for review, time in appealing to the Court of Appeals for the Federal Circuit may also be required.

In addition to considering the differences in pre-September 16, 2012 reexaminations and post-September 16, 2012 reviews for choosing when to file a request for *inter partes* reexamination/review, challengers should know that the Patent Office may limit the number of *inter partes* reviews from September 16, 2012 to September 16, 2014. AIA § 6(c)(2)(B).

#### **(d) new post-grant review**

New "post-grant review" is very similar to the new *inter partes* review discussed above, with a couple of important distinguishing features. First, unlike *inter partes* reexamination and *inter partes* review, any ground of invalidity may be raised in a post-grant review. See AIA § 6(d). Second, a request for post-grant review

must be filed within nine months after the patent issues or reissues. *Id.*

#### **(e) new supplemental examination proceedings**

Effective September 16, 2012 for all unexpired patents, supplemental examination proceedings can be used to shield patents against claims of inequitable conduct. See AIA § 12(a). Specifically, "[a] patent shall not be held unenforceable on the basis of conduct relating to information that had not been considered, was inadequately considered, or was incorrect in a prior examination of the patent if the information was considered, reconsidered, or corrected during a supplemental examination of the patent." *Id.*

After the patentee requests supplemental examination, the PTO will—within three months—determine if a substantial new question of patentability is raised. If so, a reexamination is ordered. *Id.* Supplemental examination cannot be requested to address allegations pled with particularity in a civil action, and supplemental examination is not effective in any enforcement action commenced before the supplemental examination and any ensuing reexamination are concluded. *Id.*

#### **(f) the end of the "best mode" requirement**

The requirement that a patentee must disclose the best mode in which he has contemplated practicing his invention has applied to machines since 1870 and all classes of inventions since 1952. See Patent Act of 1870, ch. 230, § 26, 16 Stat. 198 (1870); Bryson Act, ch. 950, 66 Stat. 798 (1952). The purpose of the best mode requirement "is to restrain inventors from applying for patents while at the same time concealing from the public preferred embodiments of their inventions which they have in fact conceived." *In re Gay*, 309 F.2d 769, 772 (C.C.P.A. 1962).

35 U.S.C. § 282 has been amended to specifically exclude a patentee's failure to disclose the best mode for practicing the invention as a defense to patent infringement. AIA § 15(a). This change is effective to proceedings commenced on or after September 16, 2011. AIA § 15(c). Applicants may now choose to disclose less information in their patent applications, and patent owners have no need to worry about a best mode defense in any newly-filed cases.

#### **(g) limitations on joining parties accused of patent infringement**

Lawsuits by companies that license patents without producing goods or delivering services (often referred to as non-practicing entities, NPEs, or patent trolls) are "associated with half a trillion dollars of lost wealth to defendants from 1990 through 2010." James Bessen, Jennifer Ford, & Michael J. Meurer, *The Private and Social Costs of Patent Trolls 2* (Boston U. Sch. of Law Working Paper 11-45, Sept. 19, 2011), available at <http://www.bu.edu/law/faculty/scholarship/workingpapers/2011.html>). Many of those individual lawsuits are filed against multiple defendants. Colleen Chien, *Of Trolls, Davids, Goliaths, and Kings: Narratives and*



*Evidence in the Litigation of High-Tech Patents*, 87 N.C. L. Rev. 1571, 1572. Accordingly, while only seventeen percent of high-tech patent suits from 2001-2009 were brought by NPEs, twenty-eight percent of all high-tech patent suits from 2001-2009 involve NPEs when suits are counted based on the number of defendants. *Id.*

It will now be more difficult—and expensive—for NPEs to enforce their patents, as defendants cannot be joined or consolidated solely on allegations that they each infringed the patent at issue. See AIA § 19(d) ("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."). Instead, defendants can only be joined or consolidated if: (1) "any right to relief is asserted against the parties jointly, severally, or in the alternative with respect to or arising out of the same transaction, occurrence, or series of transactions or occurrences," (2) "questions of fact common to all defendants or counterclaim defendants will arise in the action," or (3) each defendant waives the restriction on joinder/consolidation. *Id.* It seems reasonable to expect that the number of NPE suits will decline, and companies approached by NPEs may find that the NPEs are less likely to actually sue.

#### **(h) for all practical purposes, the end of false patent marking claims**

To address the flood of false patent marking cases that have been filed since the Federal Circuit's decision that the fine for false patent marking is up to \$500 per falsely marked item (instead of \$500 total), *Forest Group, Inc. v. Bon Tool Co.*, 590 F.3d 1295, 1304 (Fed. Cir. 2009), Congress restricted the public from filing these suits unless a competitive injury has been suffered as a result of the false marking. See AIA § 16(b). In those allowed cases, damages are limited to compensation for the injury. *Id.* These new changes apply to all cases as of September 16, 2011—even those filed before that date. *Id.* at § 16(b)(4). With both the ability to bring suit and the possible award of damages significantly curtailed, false patent marking claims are essentially history.

#### **(i) new "virtual" patent marking**

Patent markings are used to deter copying and increase the patent owner's rights to damages in the case of infringement. If a patented product is properly marked, the damages that may be recovered in patent infringement cases may extend back for a period of six years prior to the filing of a complaint for patent infringement; otherwise, damages may be limited to damages accrued after actual notice of infringement to an infringer. 35 U.S.C. §§ 286, 287(a).

Virtual marking is now allowable. AIA § 16(a). This means that, instead of having to include the patent number on patented products to secure damages, you can now include "patent" or "pat." along with an internet domain address where the patent number is provided and clearly linked to the product. *Id.* There



cannot be a charge to access the website. *Id.* However, the AIA requires the Patent Office to review the effectiveness of virtual marking by September 16, 2014, and it is possible that virtual marking could be eliminated. See AIA § 16(a)(3). As such, patent owners may want to continue using patent numbers in any new product molds or other situations where it could be expensive to later change from virtual marking to traditional marking with a patent's number.

#### **(j) reduced fees for "micro entities"**

Small entities (whose number of employees, including affiliates, does not exceed 500 persons) are often eligible for a fifty percent reduction in certain PTO fees. 35 U.S.C. § 41(h); 37 C.F.R. § 1.27; 13 C.F.R. § 121.802. If the PTO sets fees that withstand a 45-day period for Congressional scrutiny, new micro entities may be eligible for a seventy-five percent reduction in certain PTO fees. AIA § 10. A micro entity is typically an applicant who qualifies as a small entity, has not previously filed more than four nonprovisional patent applications in the U.S., and "did not, in the calendar year preceding the calendar year in which the applicable fee is being paid, have a gross income, as defined in section 61(a) of the Internal Revenue Code of 1986, exceeding 3 times the median household income for that preceding calendar year, as most recently reported by the Bureau of the Census." AIA § 10(g). Median household income in 2010 was \$49,445, so the maximum income to qualify as a micro entity in 2011 would be \$148,335. See Carmen DeNavas-Walt, Bernadette D. Proctor, & Jessica C. Smith, U.S. Census Bureau, Current Population Reports, P60-239, *Income, Poverty, and Health Insurance Coverage in the United States: 2010*.

In fiscal year 2010, only 27.8 percent of the newly filed utility and plant patent applications were by small entities. Changes to Implement the Prioritized Examination Track (Track I) of the Enhanced Examination Timing Control Procedures, 76 Fed. Reg. 18,399 (Apr. 4, 2011). It is unclear what percentage of those applicants would qualify as micro entities. As of September 26, 2011, standard filing, search, and examination fees for a nonprovisional patent application total \$1,250. Whether a \$937.50 reduction for micro entities will have an effect on the number of applications filed by micro entities is yet to be seen, especially considering that, as of 2010, median attorney fees for preparing and filing a non-provisional patent application on an invention of minimal complexity were \$7,000. *AIPLA Report of the Economic Survey 2011*, p. 28, American Intellectual Law Association (July 2011). Nevertheless, micro entity status will surely be appreciated by those who qualify.

#### **(k) new review proceedings for business method patents**

New proceedings will be established by September 16, 2012 to challenge certain business method patents at the Patent Office. AIA § 18(a)(1). However, because these proceedings will only apply to "a patent that claims 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," AIA § 18(d)(1), attention provided

to this portion of the new laws may be largely undue. This provision was reportedly added at the behest of banks targeted by patent owner DataTreasury Corp. See Ryan Davis, *Singled Out In Patent Bill*,

DataTreasury Files New Suit, Law 360, Sept. 9, 2009, <http://www.law360.com/ip/articles/270394>.

#### **(I) the extended ability for third parties to submit prior art in pending patent applications**

Until September 16, 2012, third parties may only submit prior art and a concise explanation of its relevance to a pending patent application before the application is published or with the express written consent of the applicant. 35 U.S.C. § 122(c); 37 C.F.R. § 1.291. After September 16, 2012, third parties may submit prior art and a concise explanation of its relevance to a pending patent application before the earliest of:

(a) the date a notice of allowance is transmitted; or

(b) the later of:

(1) six months after publication under 35 U.S.C. § 122; and

(2) the date any claim is first rejected under 35 U.S.C. § 132 "during the examination for patent."

Viewed in a vacuum, the idea of giving the Patent Office prior art that should invalidate a competitor's patent application sounds reasonable. But careful consideration should be given before taking advantage of this provision. The patent applicant has the ability to sit down with the examiner to discuss the case and the prior art. 37 C.F.R. § 1.133. After providing the references and concise explanation of their relevance, the third party has no further involvement.

If the applicant is able to overcome that prior art, the third party competitor may have done itself a disservice. This has happened in the similar context of *ex parte* reexamination. At the very least, it may be particularly desirable for third parties to hold back their best prior art references for future use in litigation or *inter partes* review, where the challenger has more continuing input.

#### **IV. Conclusion**

With these and other changes to the Patent Laws, patent owners and applicants may want to contact their patent attorneys to discuss how their intellectual property strategies may be affected and whether acting promptly or waiting to take specific actions may be advantageous.