

ASSOULINE & BERLOWE, P.A.

ATTORNEYS AT LAW

3250 Mary Street, Suite 404

Miami, Florida 33133-5232

Telephone: 305-567-5576 · Facsimile: 305-567-9343

www.assoulineberlowe.com

The America Invents Act of 2011:

What Every Inventor, Patent Applicant, or Patent Owner Needs to Know

Or

Did My Patent Rights Just Change?

By

Loren Donald Pearson

Registered Patent Attorney

Florida Bar Board Certified Intellectual Property Attorney

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The Leahy-Smith America Invents Act

A first-to-File patent system was signed into law on September 16, 2011 as the most significant provision of the Leahy-Smith America Invents Act (“AIA”). In addition, the AIA changes post-issuance proceedings, patent application requirements (inventor oaths, best mode), false marking, litigation defenses, patent-litigation-related civil procedure, and Patent Office operations. The AIA is the most significant change to the patent statute since 1952.

The legislation is fifty-two pages and involves amending existing statutes, creating new statutes, and defining effective dates.

This white paper is intended to provide a summary of each of the changes. At the end of each section is a list of action steps that every inventor, patent application, or patent holder should consider and discuss with their Registered Patent Attorney. In addition, each section includes an effective date of the particular provision and a reference to the underlying section.

The enactment dates range from immediate to March 16, 2013.

What is the Purpose of the America Invents Act

The Whitehouse signed the law with the purpose of boosting American companies and inventors who have suffered costly delays and unnecessary litigation, and to let them focus instead on innovation and job creation.

Key Elements of America Invents Act

- A fast track option for Patent Processing within 12 Months: Instead of an average wait time of almost three years, the Patent and Trademark Office will be able to offer startups growing companies an opportunity to have important patents reviewed in one-third the time – with a new fast track option that has a guaranteed 12-month turnaround. Patent ownership is a critical factor venture capital companies consider when investing in entrepreneurs hoping to grow their business.
- Reducing the current patent backlog: The additional resources provided in the law will allow the Patent and Trademark Office to continue to combat the backlog of nearly 700,000 patent applications and will significantly reduce wait times.
- Reducing litigation: The Patent and Trademark Office will offer entrepreneurs new ways to avoid litigation regarding patent validity, at costs significantly less expensive than going to court.
- Increasing patent quality: The Patent and Trademark Office has re-engineered its quality management processes to increase the quality of the examinations and has issued guidelines that clarify and tighten its standards for the issuance of patents. The legislation gives the USPTO additional tools and resources to further improve patent

quality, and allows patent challenges to be resolved in-house through expedited post-grant processes.

- Increasing the ability of American Inventors to protect their IP abroad: The new law will harmonize the American patent process with the rest of the world to make it more efficient and predictable, and make it easier for entrepreneurs to simultaneously market products in the U.S. and for exporting abroad. The Patent and Trademark Office has also expanded work-sharing with other patent offices around the world to increase efficiency and speed patent processing for applicants seeking protection in multiple jurisdictions.

Patent Rights Changed

To enact the goals of the legislation, specific sections of the patent statute have been changed. The changes affect the rights of inventors and patent owners. Continuing under old assumptions may jeopardize patent owner rights.

Inventors, patent owners, and potential patent-infringement defendants should have their current patent portfolio and invention plan reviewed.

A registered patent attorney and Florida Bar Board Certified Intellectual Property Attorney should review each case and each company's invention disclosure procedure.

Manufacturers that are aware of competitor's patent filings should consider the new strategies that are available for challenging patents on both a pre- and post-issuance manner. The new provisions on challenging patents include short windows that should be immediately considered.

The remainder of this paper discusses the various provisions. Every applicable provision should be reviewed by a qualified attorney.

First to File System

The most fundamental change created by the Leahy-Smith America Invents Acts (AIA) is the change in the priority of inventorship from a first-to-invent system to a first-to-file system. The change to a first-to-file system aligns the United States with every other country in the world.

To enact the first-to-file system, the AIA changed the definition of prior art (i.e. Novelty and Obviousness).

Novelty

The AIA revised Section 102 of the patent act to redefine novelty.

Under the revised section, a person shall be entitled to a patent unless the invention was made available to the public, sold or offered for sale anywhere in the world, or patented or described in a publication before the effective filing date of the claimed invention.

Patents and published patent applications become prior art as of the effective filing date of the patent or application.

The “effective filing date” is the actual filing date of an application or the filing date of the earliest application for which the patent or application is entitled for the claimed invention. Effective filing date includes priority claims for international applications, provisional patent applications, and related (i.e. continuation, continuation-in-part, and divisional) applications as provided by 35 USC §§ 119, 365(a), 365(b), 120, 121, and 365(c).

Exceptions to First to File

A one year grace period is provided to an inventor for disclosures made by the inventor or invention owner. If an inventor makes a public disclosure more than a year before filing, the disclosure may bar the inventor from patenting the invention.

The second exception prevents other’s patents and published applications that are derived from work described by the inventor or assignee.

Derivation Proceeding

The AIA eliminates patent interferences but creates derivation proceedings. The purpose of derivation proceedings is to determine whether the invention in one patent was derived from the work claimed in another later-filed patent or application.

The new court will be called the Patent Trial and Appeal Board (PTAB). The new court is the successor of the Board of Patent Appeals and Interferences (BPAI).

Obviousness

The AIA has amended Section 103 of the statute. Section 103 governs obviousness.

The revised standard for obviousness changes the moment at which obviousness is determined. Revised section 103 considers the differences between the invention and the prior art as of the effective filing date. In the previous statute, the comparison was made at the time of invention.

Section 103(c) (i.e. the common-assignee exception) has been incorporated in the Novelty section.

Enactment

The first to file system will be enacted on March 16, 2013.

Applications filed before March 16, 2013, but that are still pending, will be reviewed by the old first-to-invent system.

Comments:

Patent applicants will no longer be able to rely on an earlier date of invention to ante-date cited references by filing a Declaration under Rule 1.131. This means information gained through notebooks, prototypes, etc. is no longer relevant for determining priority. (Note, the information may still be relevant for issues like inventorship.)

Provisional patent applications should be considered for every invention. Provisional patent applications cost less to file and have looser filing requirements. Both facilitate quick filing and establishment of an early effective filing date.

The content of provisional patent applications is critical. To establish an earlier effective filing date, the subsequently claimed invention must be disclosed and enabled in the earlier-filed provisional patent application.

FILING PROVISIONAL PATENT APPLICATIONS QUICKLY is so important under the new law that it worth repeating. In addition, strategies for gathering complete disclosures from inventors will facilitate the quick filing of provisional patent applications.

Post Issuance Proceedings

The Leahy-Smith America Invents Act (AIA) replaced the existing system of post-issuance review of patents with *Inter Partes* Reviews, Post Grant Reviews, and Supplemental Examination Proceedings.

Inter Partes Review resolves issues related to Sections 102 and 103 (i.e. novelty and priority) involving patents and publications.

Post Grant Review permits a third party to raise any ground for invalidity under 35 USC § 282 (i.e. statutory reasons other than novelty and priority).

Supplemental Examination is a process by which a patent owner addresses any validity issues discovered after grant of the patent.

The old system of *Inter Partes* Reexamination ended effectively on September 16, 2011.

Inter-Partes Review

As stated, *Inter Partes* Review resolves issues related to Sections 102 and 103 (i.e. novelty and obviousness) involving patents and publications.

Inter Partes Reviews cannot be filed until nine months after a patent has been granted or after a post-grant review has been completed.

The new standard for deciding whether a petition requesting an inter-partes review is granted is whether there is a reasonable likelihood that the petitioner will prevail with respect to at least one of the challenged claims. The petition is to be reviewed within three months of filing. The PTAB must issue a decision within one year. The one year can be extended when the PTAB shows good cause.

A third party must choose between *Inter Partes* review and a Declaratory Judgment action. When a Declaratory Judgment action has already been filed, a petition for an Inter-Partes review will be denied. Likewise, a subsequently filed Declaratory Judgment action will be stayed when an *Inter Partes* review is pending.

Estoppel is created when an *Inter Partes* Review has been completed and the same issue. In other words, courts are bound by the interpretation of an issue decided earlier in an *Inter Partes* Review.

The PTAB issues decisions of *Inter Partes* Reviews in an IPR Certificate. The decision can be appealed directly to the Court of Appeals for the Federal Circuit.

Comment: *Potential patent infringement defendants who know of prior art can petition for an Inter-Partes Review of the patent. The costs of an Inter-Partes Review are significantly less than defending a patent infringement lawsuit. A potential defendant can avoid being dragged into an inconvenient venue by filing an Inter-Partes Review. Before an Inter-Partes review is filed, a defendant must consider the estoppel risks involved.*

Post-Grant Review

Post Grant Review permits a third party to raise any ground for invalidity under 35 USC § 282. Section 282 specifies invalidity for reasons specified in part II of the patent act, and invalidity of the patent or any claim for failure to comply with any requirement of sections 112 (i.e. enablement or definiteness) or 251 of this title.

The PTAB will grant a petition for post-grant review when a petition asserts that it is more likely than not that at least one of the challenged claims is unpatentable. The patentee can rebut the assertion. The PTAB can grant petitions for Post Grant Review if the petition raises novel or unsettled legal questions important to other patents or patent applications. The decision to grant the petition is to be made by the director within three months of filing.

A petition to request Post-Grant Review must be filed within nine months of patent issuance or issuance of broadening reissue.

Parties must choose between filing a petition for a Post Grant Review or filing a Declaratory Judgment action. Once either is filed, the other is precluded.

The AIA limits the court's ability to stay an action when the alleged infringer files a Post Grant Review. If an infringement action is filed within three months of issuance, a Court may not stay consideration of a request for preliminary injunction because a petition for Post Grant Review has been filed or that a Post Grant Review has been initiated.

Comment: *Potential patent infringement defendants who question the enablement or definiteness, or subject matter of a patent should consider filing a Petition for Post Grant Review. The costs of a Post Grant Review are significantly less than defending a patent infringement lawsuit. A potential defendant can avoid being dragged into an inconvenient venue by filing an Inter-Partes Review. Before an Inter-Partes review is filed, a defendant must consider the estoppel risks involved.*

Supplemental Examination

Supplemental Examination provides a patentee an opportunity to address validity issues after issuance.

The director will grant a petition for Supplemental Examination to address any validity issues uncovered after the patent is granted. The petition must include at least one new substantial question of patentability. Unlike *Ex Parte* Reexaminations, Supplemental Examinations can consider issues of patentability that involve prior art beyond merely patents and publications.

Comment: *If a patent holder knows of prior art that was not disclosed or learns of prior-art that could affect the scope of patented claims, the patent holder should consider filing a Petition for Supplemental Examination. Supplemental Examination provides an opportunity to cure inequitable conduct (e.g. hiding a patent from the examiner) and to correct the scope of the claims. A patent with proper scope is more likely to produce pre-litigation settlements from defendants than an overly-broad patent.*

Interim Program for Financial Product or Service Business Method Patents

Business method patent that claim 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 are subject to an interim review program.

The interim program allows for an injured party to challenge a covered patent under the provisions of Sections 102 and 103 as they currently are written. However, the petitioner only may rely on Sections 102(a) and (b) prior art.

If a party challenges a covered patent under the interim program, the party will be estopped from raising the issues in subsequent proceedings.

The program will be enacted on September 16, 2012. The program is set to sunset (i.e. automatically expire) eight years from its inception: i.e. September 16, 2020.

Comment: *Any patent holder or licensee of a bank-related patent should have that patent or patent application carefully reviewed in light of this change.*

Inventor Oaths

The Leahy-Smith America Invents Act (AIA) changes the requirements of the Oath required of every inventor filing a patent application.

Oath Requirements

The AIA retains the requirement that every inventor be named and that each inventor must submit an oath or declaration. In the oath, the inventors must declare that they caused the application to be filed, or that they authorized it to be filed, and that they believe they are the inventors of the invention claimed in the applications.

The effective date is September 16, 2012.

Comment: *The inventors' oath and assignment (i.e. transfer of rights to another) now may be combined in a single document.*

Substitute Statements

The AIA allows four circumstances when a substitute statement can be filed. 1) The inventor is dead. 2) The inventor is legally incapacitated. 3) The inventor cannot be reached or found despite diligent effort. 4) The inventor refuses to execute the oath that assigned the invention to another or is under a legal obligation to assign the invention to another.

Subsequent Applications

The AIA eliminates the need for filing a new oath or declaration or substitute statement for each newly filed related application.

Prior Commercial Use Defense

The Leahy-Smith America Invents Acts (AIA) increased the scope of the prior commercial use defense. The defense codified in Section 282(b) provides a defense with respect to subject matter consisting of a process, or consisting of a machine, manufacture, or composition of matter, used in a manufacturing or other commercial process that would otherwise infringe a claimed invention being asserted against the person. The prior statute only provided for a defense of prior commercial use. The AIA extends the defense to preexisting machines, manufacture, or composition.

For nonprofit entities, the defense only provides for further nonprofit and noncommercial use.

A defense under this section is not assignable or licensable.

If a prior user abandons use, then the defendant may lose the defense if use is resumed after the effective date of the patent.

A prior-commercial use defense cannot be asserted by an entity that is obligated to be assigned to an institution of higher education. The exception to this rule is when the activities required to reduce to practice the subject matter of the claimed invention could not have been undertaken using funds by the Federal Government.

The effective date of the defense was immediate: i.e. September 16, 2011.

Comment: *Universities and Non-profits must remember that the defense is not available based on its prior commercial use.*

Third-Party Submission of Prior Art

The Leahy-Smith American Invents Act (AIA) provides mechanisms for third-parties (i.e. not the applicant or examiner) to assert prior art against an application.

Pre-Grant

The AIA provides for third parties to submit prior art to an Examiner of pending patent application. The submission must include a letter explaining the significance of the prior art to the claimed invention. The AIA limits the type of prior art to patents, published patent applications, and printed references.

The timing for submission is within six months after the application publishes or before the first substantive office action, whichever is later. Regardless, the submission must be made before a notice of allowance has issued.

Comments:

Establish ongoing searches to detect the publication of new patent applications. Searches can watch keywords, technology centers, inventors, and assignees. By watching the published applications, the deadline to submit prior art against pre-grant applications can be met.

The window for submitting prior art is relatively short. Whenever a relevant published application is discovered, a submission should be prepared. If necessary, a search can be conducted to add prior art to the submission.

Submitting prior art is the least expensive way for a third party to intervene in the patent process. However, the third party also has the least control of what happens once the prior art is submitted.

Post-Grant

The AIA provides that third parties may submit prior-art against patents after grant. The submission must be in writing and include a short statement regarding the relevance of the submitted prior art.

The patent office will not consider the post-grant submission until an *Ex Parte* Reexamination, *Inter Partes* Review, or Post Grant Review is instituted. The submission is merely kept with the file until one of the proceedings is initiated.

Comment: *Post-grant submissions may be particularly useful when a third party knows of litigation between the patent holder and another third party. A post-grant submission could*

provide a potential defendant with a cheap means of affecting the scope of a patent before a complaint is filed.

Non-Patentable Subject Matter

The Leahy-Smith America Invents Act (AIA) explicitly removes two types of inventions from patentable subject matter.

Tax Strategies

The AIA states that strategies for reducing, avoiding, or deferring tax liability are deemed prior art for purposes of Sections 102 and 103 (i.e. novelty and obviousness). As a result, methods for saving taxes are no longer patentable subject matter.

The exclusion of tax strategies has two exceptions. Inventions related to the preparation of tax returns are exempt. Methods related to financial management are exempt.

Humans

The AIA explicitly prohibits the issuance of any claim directed to or encompassing a human organism.

The prohibition applies to patent applications pending or filed after September 16, 2011.

Attorney Opinions

Under the AIA, the failure of an infringer to obtain the advice of counsel with respect to any allegedly infringe, patent, or the failure of the infringer to present such advise to the court or a jury, may not be used to prove that the accused infringer willfully infringed the patent or that the infringe intended to induce infringement of the patent.

Comments:

I have been outspoken about implied requirements for defendants. Some of my colleagues have taken the requirement for patent and trademark opinions as a requirement. For the smallest defendants, this mere requirement may be an unreachable threshold. The codification removing any presumption will benefit smaller defendants.

Regardless, having opinions are a key to planning litigation and avoiding findings of willful infringement and avoiding Rule 11 Sanctions.

Best Mode

The Leahy-Smith America Invents Acts (AIA), Sec. 15, removes that a patent is invalid for failing to disclose the best mode under Section 282. However, a best mode is still to be disclosed under Section 112.

The effective date of this change was September 16, 2011.

False Marking

The Leahy-Smith America Invents Act (AIA), Sec. 16, eliminated *qui tam* actions (i.e. private, third-party) for false marking. The change is effective September 16, 2011, and applies to pending and future actions. As a result, false-marking cases only can be brought by the United States or when a private party has suffered actual damage from the false marking. In addition, leaving a marking notice of an expired patent on a product is no longer deemed false marking.

Comments:

False marking had become a boon to the plaintiff bar and a bane to manufacturers. Since December, 2010, about three false-marking cases were being filed per day. The actions were merely a grab for money and attorney's fees. The AIA removes this cause of action.

Proper patent marking is still critical. Not properly marking a patent product may preclude recovery of damages.

Virtual Marking

Section 16 of the AIA also provides for a new form of "virtual marking". Manufactures may continue to use traditional markings on patent production. Now, in addition, manufactures may use "patented" or "Pat." followed by a web address listing the patents.

Comment: *The virtual marking provision provides manufacturers with a means to update their marking without having to reprint packaging or retool dies each time a new patent involving a product issues.*

Repeal of SIR

Statutory Invention Registration (SIR) was expressly repealed in Section 3 of AIA.

Historically, statutory invention registrations were used by applicants for publishing patent applications on which they no longer felt they could get patents. By publishing the patent applications, they helped ensure that the inventions were in the public domain and no one else could subsequently get a patent on them.

Comment: *SIR became of little use since pending application were being published under the 1999 American Inventor's Protection Act.*

Civil Procedural

The Leahy-Smith America Invents Act (AIA) affects civil procedure involving patent cases. These provisions are

Joinder

The AIA now requires that parties may only be joined into a single law suit only if the allegations against them arise out of a common occurrence, transaction, series of occurrences, or series of transactions and there are common issues of fact. Merely infringing the same patent is no longer enough to join multiple defendants.

September 16, 2011, is the effective date of the joinder provisions.

Venue

USPTO as defendant

Section 9 of the AIA changed the court where actions against the USPTO are to be brought to the Eastern District of Virginia from the District Court for the District of Columbia.

September 16, 2011, is the effective date of the venue change.

ATM Machines

In litigation business method patents for financial services, the mere presence of an ATM machine in a jurisdiction is not sufficient to create a regular and established place of business for determining venue.

Jurisdiction

Exclusive Federal Jurisdiction

Section 19 of the AIA, provides exclusive jurisdiction to the Federal Courts in patent matters. To create the change, Section 11338 of the patent statute has been amended to expressly remove jurisdiction for patent matters from state courts. The AIA expanded the definition of state to include the District of Columbia, Puerto Rico, the Virgin Islands, Guam, Samoa, and the Mariana Islands.

September 16, 2011 is the effective date.

Federal Circuit Jurisdiction

The AIA creates jurisdiction in the Federal Circuit of Appeals to include appeals from *Inter Partes* Reviews, Post-Grant Reviews, and Derivation Proceedings.

The AIA also clarifies that the Federal Circuit has jurisdiction where a counterclaim is based on an Act of Congress relating to patents or plant variety protection.

Removal of Actions

The AIA amends Section 1454 of the patent act to provide enforcement of the exclusive jurisdiction. Section 1454 now provides for the removal of actions involving a claim based on patent, plant variety protection, or copyright to the Federal District Court.

State courts that the District Court must remand to state court any claims that do not arise under the District Court's original or supplemental jurisdiction. The District Court may remand claims that arise solely under the Court's supplemental jurisdiction.

PTO Operations

The Leahy-Smith America Invents Act (AIA) includes a number of provisions to provide the Patent Office with budgetary control with the goal of decreasing patent examination pendency times.

Comments:

The USPTO has been used as a source of revenue for the federal government's general budget. As a result, the USPTO has been unable to hire enough examiners to reduce the examination time. The slow examination has been especially felt in the business-method art groups. My theory on the entire AIA is that the USPTO would have approved any legislation that would increase its budget.

Unfortunately, the final legislation removed some of the fee-setting independence that the USPTO desired.

Regardless, the following provisions should have a significant impact on examination times and the overall fiscal wellbeing of the USPTO.

Fee Setting

Section 22 of the AIA provides a new funding system for the USPTO. Funds earned in excess of the USPTO's budget are to be kept in a reserve fund. The control of this fund has Congressional oversight. The fee setting provisions are effective on October 1, 2011.

A surcharge of 15% has been added to all patent fees after September 26, 2011.

Comment: *The reserve fund should provide greater access to the USPTO to the fees that it generates.*

Micro-Entity

The AIA provides a 75% reduction of fees to micro-entities, which are solo inventors who have filed fewer than four patent applications prior to the present application and who have an annual income of less than three times the median household income for the prior year. Employees of institutions for higher learning, as well as the institutions themselves, may claim micro-entity status.

Micro-Entity is not currently available. The status will not be available until the USPTO creates the related regulations. No date has been set as of October 1, 2011, but one is expected before the end of 2011.

Comment: *This provision should provide significant cost discounts to small inventors.*

Paper Filing

The USPTO will charge \$400 for paper filed applications. The fee is reduced by 50% for small entities.

Comment: *Electronic filing is the preferred method of filing. Electronic filing provides for immediate receipts and confirmation plus many other advantages.*

Administrative Patent Judges

The AIA provides for the hiring of Administrative Patent Judges.

The job postings for the new judges have already been created. To attract qualified judges, the salary of the judges has been increased.

Comment: *The addition of administrative patent judges will reduce the pendency of appeals.*

Satellite Offices

The AIA provides the USPTO to create three additional satellite offices to help with the hiring of qualified, local examiners. A satellite in Detroit was previously authorized and is being developed.

PTO Studies

The AIA calls the USPTO to conduct a number of studies. The studies will not affect applicants directly but will be used to base future legislation and rule making. The studies include the effect of the first-to-file provisions,

Patent Term Extensions

The AIA changes the timing of the 660-day window in which an application for patent term extension following review by the Food and Drug Administration must be filed.

Under the AIA, if the approval is received after 4:30 PM Eastern Time, the approval will be treated as though the approval was received the next business day.

Comment: *Any pharmaceutical patent holder who has a product being reviewed by FDA must review their docketing deadline schedules so as not to miss this critical date.*

Appendices

The full text of the Leahy-Smith America Invents Act (AIA) can be found at the following address:

http://www.uspto.gov/aia_implementation/bills-112hr1249enr.pdf

The Schedule for Enactment can be found at the following address:

http://www.uspto.gov/aia_implementation/aia-effective-dates.pdf

The current Patent Office charges including the surcharge are available at the following address:

http://www.uspto.gov/aia_implementation/15_Percent_Surcharge_Fee_Changes.pdf

USPTO's webpage on America Invents Act implementation:

http://www.uspto.gov/aia_implementation/index.jsp

About the Author:

Loren Donald Pearson is a Registered Patent Attorney and Florida Bar Board Certified Intellectual Property Attorney. Mr. Pearson leads the intellectual-property prosecution group at Assouline & Berlowe, P.A.

Loren Donald Pearson is available to speak on Intellectual Property topics including the America Invents Act to trade and professional societies, universities, and other groups.

Mr. Pearson's blog can be read at www.LorenPearson.com

Loren Donald Pearson
(305)567-5576
LDP@AssoulineBerlowe.com