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THE AMERICA INVENTS ACT: HOW RECENT CHANGES TO U.S. PATENT LAW AFFECTS INTERNATIONAL BUSINESS AND THE TAPE INDUSTRY

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Introduction

In September 2011, President Obama signed the new patent laws (*i.e.*, the America Invents Act) into law and the most significant reform of U.S. patent law in the past six decades began to take effect. The America Invents Act (AIA) overhauled substantial aspects of U.S. patent law, and in particular, the impact such changes have in the international marketplace. This paper will identify the most notable changes to the U.S. patent laws at an overview level, and how such changes impact a crowded technological field like the tape industry.

Moving from a First-to-Invent to a First-to-File priority system

For over 175 years, the United States remained one of the few countries in the world with an established patent system that utilized a first-to-invent priority system. Under the first-to-invent priority system, a patent is granted to the first person who invented the claimed subject matter, rather than to the first person who files a patent application. Thus, under such a system, the order of filing patent applications with the United States Patent and Trademark Office (USPTO) was relevant only to the extent of a presumption of a first inventor, but a subsequent filer was often awarded a patent over the first filer, if the subsequent filer could prove he/she was the first to actually invent the claimed subject matter, and did not abandon, suppress or conceal it.

Although disputes over priority of inventorship are generally rare, *e.g.*, there were less than 60 pending disputes over inventorship as of December 2011 at the USPTO, there existed enough concern over a first-to-invent priority system to warrant consideration for a change. One of the primary driving forces for seeking a change to the system was the fact that the majority of the countries in the world with reputable patent systems operated under a first-to-file priority system, which as the name states, awarded a patent based on priority of application filing, not inventorship dates. Thus, there was a possibility that an inventor could obtain a patent in a majority of the world based on first filed applications around the world, but lose patent rights in the United States where another inventor could prove prior inventorship.

Accordingly, effective March 16, 2013, the United States officially became a first-to-file patent priority system. While the overall implementation of the first-to-file priority system will harmonize the United States patent law with most of the rest of the world, the practical implications are only starting to be recognized by those the changes to the law are intended to help, which is largely due to other changes to the patent law to support the new first-to-file system.

New “Prior Art”

Without the benefit of being able to rely upon a date of invention, changes to what constitutes “prior art” (*i.e.*, information capable of being utilized against an inventor to show that claimed subject matter is in the public domain, or known prior to the purported invention by the inventor) were a necessary part of the AIA. The new statute reiterates that if an invention is patented, described in a printed publication, in public use or on sale, prior to the date of filing of the patent application, they constitute prior art.

While the language reads similar to the old statute, the major practical difference is that an inventor can no longer claim he/she invented the purported invention prior to the date of disclosure of such information in the public domain, provided the patent application was filed within one year of such public disclosure. An exception to this rule, and perhaps the only part of the old first-to-invent system that remains intact, is that any public disclosure of the invention by the inventor within twelve (12) months prior to the filing of the patent application shall not be deemed prior art.

This twelve (12) month “grace period,” is still quite unique to the United States, and thus, does not place the entire new first-to-file system in sync with most of the rest of the world. However, in other jurisdictions such as the Europe Patent Office, a similar grace period concept exists, but with much shorter time frames.

Interference concept replaced with Derivation Proceeding

While the concept of an interference proceeding still applies to inventions filed before March 16, 2013, any application filed thereafter is examined strictly under the AIA, and if an inventor is not the first-to-file an application claiming the invented subject matter, such inventor is not entitled to a patent covering the same. There was an issue, however, with of a lack of recourse where a first inventor to file may have stolen, misappropriated, or somehow derived the first filed patent application from another inventor. As such, the AIA provides for a forum to handle such disputes under a “derivation proceeding.”

A derivation proceeding permits a party to allege that the invention claimed in a patent application was derived from that party’s own invention and/or disclosure thereof (*e.g.*, during the twelve month grace period). If the party alleging the wrongdoing learns of the filed patent application within one year from its publication date, that party may bring a derivation proceeding before the USPTO. However, if the patent application is not discovered until after issuance of a patent, and within one year thereof, a derivation proceeding may be brought in federal district court. In either instance, if the claimed invention is found to have been derived improperly, the claims of the application and/or patent would be deemed invalidated.

New Challenges to Patent Validity and Defenses in Patent Litigation

In addition to changing how patent applications should be filed and examined, the AIA also made changes which impact patent litigation, defense strategies, and mechanisms to challenge patent validity.

Prior use rights may preempt patent infringement

A “Prior Use” defense is an affirmative defense that an alleged infringer may be able to utilize where the alleged infringer can show it had been commercially conducting the allegedly infringing act at least one year prior to the filing of the patent application from which the accused patent had been issued. Under pre-AIA law, an alleged infringer was only permitted to claim a prior use defense to certain business method claims. Under the AIA, however, the prior use defense may be utilized against a patent covering subject matter consisting of a process, or consisting of a machine, manufacture, or composition of matter used in a manufacturing or other commercial process, provided such patent issued on or after the enactment date of the AIA, September 16, 2011.

In order to claim the “prior use” defense, the prior use must be: (a) a prior *commercial* use of the subject matter of a claimed invention, (b) by the party asserting the defense (*i.e.*, claiming a third party used the invention is not acceptable), (c) within the United States, and (d) at least one year prior to the effective filing date of the patent application, or the date on which the invention was disclosed to the public by the patentee (*i.e.*, during the “grace period”). For several policy reasons, the “prior use” defense is not available where the claimed subject matter of the patent was developed pursuant to a federal government funding agreement, or by a nonprofit institution of higher education or an affiliated technology transfer organization that did not receive private funding in support of that development.

Patent owners can no longer file single suits against a multitude of defendants

One of the provisions of the AIA which negatively impacts patent owners financially is that patent owners can no longer file single patent lawsuits against a multitude of defendants, each having different allegedly infringing products. Under the AIA, parties that are accused infringers may be joined in one action as defendants, or have their actions consolidated for trial, only if: (a) 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 relating to the making, using, importing into the United States, offering for sale, or selling of the same accused product or process; and (b) questions of fact common to all defendants or counterclaim defendants will arise in the action.

One notable impact of this provision is that patent owners must make conscious fiscal decisions about pursuing patent infringement lawsuits against a defendant that may only have a limited number of sales of the allegedly infringing product. By requiring the patent owner to proceed against each such defendant individually, a potentially small amount of damage recovery becomes a cost deterrent to proceeding with a lawsuit in the first place.

Damages greatly reduced for unintended patent mismarking

One of the most difficult challenges for many manufacturers who make and sell patented products is keeping up with the necessary marking provisions. Pre-AIA, a false marking claim could be raised by any party that could contend that another party improperly put a patent number on a product that was not covered by such patent. While the standards for being successful on the merits were quite high, the statutory provision permitting false marking claims still left open the door to numerous unsuccessful attempts at recovery.

Under the AIA, the rules for false marking claims are greatly restricted. In order to raise a claim, a party must first show that it is suffering from a “competitive injury” because of the false marking. Rather than a statutory damages amount, the damages a party can now recover are directly tied to an amount “adequate to compensate for such injury.”

Another AIA change in relation to the patent marking requirements involves the ability to reference a list of applicable patents by referencing a location where they may be listed, *e.g.*, a company website. Thus, for products that may be covered by a long list of patents, a single reference to a location where such patent numbers can be found is now acceptable.

Challenging patent validity outside a courtroom

Before the AIA, nearly all challenges to patent validity either took place in a courtroom as a defense to a patent infringement dispute, or before the Board of Patent Appeals and Interferences (BPAI) in the form of a reexamination. Under the AIA, the BPAI no longer exists and has been replaced with the Patent Trial and Appeal Board (PTAB). While the PTAB serves a similar role to the BPAI, there are some significant changes to nature of the proceedings available.

In addition to overseeing derivation proceedings, described above, the PTAB also oversees a few types of patent review proceedings: “post-grant review,” “*inter partes* review,” “*ex parte* reexamination,” and “supplemental examination.” Each of these forms of patent review have benefits and limitations, but all serve as very viable alternatives to litigation.

A “post-grant review” is a proceeding whereby any person, other than the patent owner, can challenge the validity of a patent on any ground within the first nine (9) months from issuance. While this proceeding requires a party act very timely, this proceeding permits the public to effectively police patents that perhaps should never issue in the first place. It is important to note, however, this proceeding has numerous caveats and exceptions depending on the nature of other potentially related proceedings involving the patent in question.

An “*inter partes* review” is similar to an *inter partes reexamination*, with more challenger-friendly rules. In particular, an *inter partes* review requires that the party filing the request has a “reasonable likelihood of success” on the merits of the challenge to validity. The filing of an *inter partes* review must occur after the nine (9) month window for post-grant review has expired, and can only utilize published patents or written publications as a basis for validity. This proceeding becomes unavailable if the party filing the request is a defendant in a patent infringement lawsuit over one year after the lawsuit was initiated.

The one form of patent review that remained unchanged under the AIA is the “*ex parte* reexamination.” An *ex parte* reexam requires that the party requesting the reexamination show that there is a substantial new question of patentability in light of certain prior art. Unlike the *inter partes* review where the party submitting the request remains involved in the proceeding, an *ex parte* reexamination permits the requesting party to file certain information and then allows the USPTO to make its determination.

The “supplemental examination” proceeding permits the patent owner to inoculate the patent against potential inequitable conduct allegations by permitting the patent owner to submit any information that may be relevant to patentability. Upon submission, if the USPTO determines a substantial new question of patentability exists, the USPTO may reexamine the patent.

How the AIA impacts crowded technology industries such as the tape industry

Every industry is impacted by changes in law that affects commerce. However, when the laws being changed are directly related to the barrier to entry that so many companies rely upon to keep their commercial advantage, the most substantial impact is generally felt by industries where subtle changes in technology can yield remarkably different results. The tape industry certainly qualifies as one of these industries.

While each company’s strategy for handling intellectual property, innovation, mining for invention, etc., is different, there are a few general guidelines that can be followed and a few old practices that can be abandoned in light of the AIA.

File early and file often

While many companies may think they have an aggressive patent strategy with regards to seeking patent protection on all major company developments, if such company is still operating under pre-AIA guidelines, that aggressive strategy is probably now passive.

In crowded industries, where most problems with existing products are known amongst most in the industry, and where nearly every company is working independently to solve such problems, it is very likely and possible companies are working on similar solutions. As such, under the new first-to-file guidelines, it is absolutely imperative that companies revisit their guides as to when an invention should be disclosed to management at a high level, when it should be drafted in an invention disclosure format, and when patent counsel should be called to draft and file a patent application.

Waiting for product testing may be too late to identify an invention, as a competitor with a similar solution at concept stage, may have already articulated its composition, method, etc., in a patent application. While keeping a detailed engineering journal with dated, numbered pages is still good practice for record keeping, its benefits of identifying a date of conception or invention no longer exist. As such, the best practices to adopt are to file early and file often on even marginal conceptual improvements if there is the slightest chance such improvement could mature into a viable solution.

Know your competitors

Sometimes it is more important to play defense than to play offense. Even if a company has no interest in incurring the expensive cost of procuring international patent protection on its inventions, every company has to

be concerned over the exclusive proprietary rights being granted to its competitors, and where barriers to entry are being put up to keep competition out.

By implementing a state of the art patent monitoring program, a company can stay on top of patents issued to competitors. Given the time constraints associated with some of the post-grant review procedures, there are very cost-effective ways to challenge a patent that may have been granted improperly, but it requires a company stay on top of patent developments in the industry.

Litigation does not always have to be litigation

While the threat of litigation is often fear-inducing to many companies, there are a number of rules in the AIA to help an accused defendant potentially avoid the costly path of fighting in a courtroom, by bringing at least a portion of the fight to an administrative board at the USPTO. Many times, the decision of whether to settle or to fight stems from the strength of a defense. When applicable, by vetting such defense before the USPTO, a costly lawsuit may be avoided in its entirety.

Hire competent intellectual property attorneys to help

Whether a company uses internal intellectual property counsel, hires outside intellectual property counsel, or has a blend of both, having competent intellectual property attorneys who know all aspects of U.S. patent law and has strong international relationships to competent foreign counsel as well, is imperative for any company in any technology sector. Although attorneys can be costly in general, strong patent counsel can increase a company's value through a strong patent procurement program and avoidance of third party issues.