

# Practical patent portfolio strategies for the America Invents Act

Many aspects of US patent law and practice have changed following the enactment of reform legislation. As a result, organisations should review their patenting procedures to see whether they too are in need of reform

By Edward Van Gieson

On 16th September 2011, President Obama signed into law the America Invents Act of 2011 (AIA) – also commonly known as Patent Reform. The AIA is filled with many pitfalls for the unwary when the package of laws is considered as a whole.

Many of the provisions in the AIA have parallels with the patent systems in other jurisdictions. The United States now has a first-to-file system, a post-grant review system comparable in many respects to European opposition proceedings and so on. The best practices used to preserve international filing rights across the world are generally applicable. That is, if a company wants the best possible worldwide protection for an invention, it should file a strong patent application as soon as practicable and before any public disclosures.

However, the AIA has many possible interpretations when it comes to specific details and also has important exceptions from the patent systems of other countries. Understanding these exceptions and differences is important in many real-life scenarios, to reduce downstream risks and optimise patent portfolio valuation.

Moreover, the AIA will almost certainly generate many years of confusion. Many provisions suffer from poor drafting and

logical inconsistencies when common real-world scenarios are considered. Additionally, the US Patent Office (USPTO) will not come out with a complete body of procedural rules for some time and court decisions interpreting provisions of the new act are likely years away. As a result, a cloud of confusion surrounds IP strategies for dealing with many common fact patterns, and could linger for many years.

## Strategic response to reform

So how does an organisation best utilise its resources to protect its intellectual rights given the change in law and the cloud of confusion? This is an important question.

Can an organisation afford to wait to consider strategies for dealing with the confusion caused by the AIA? Certainly, an organisation can adopt a wait and see approach, making only the most minimal changes to old policies at the last possible moment with respect to the phased roll-out of its provisions. However, the problem is that actions taken today may limit options at later dates.

A case in point is the transition to a first-to-file system, which will occur on 16th March 2013. Consider an application filed on 18th March 2013, just before the public launch of a product but after the transition to a first-to-file system. The potential problem here is that the new 35 USC § 102(a) expands the range of actions that are considered to be bars to novelty to include the claimed invention being “described in a printed publication, or in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention”. Section 35 USC 102 (b) provides an exception for disclosures made by the inventor one year or less before the effective filing date. However, suppose in this example that there was an overseas sale in 2011 or early 2012. Such a disclosure could

invalidate the patent filed on 18th March 2013. A slight change in company policies today could avoid such a potential loss of patent rights – for example, changing disclosure policies or actively docketing the new range of potential public disclosures under the first-to-file provisions of the AIA. Moreover, in this example suppose also that an original equipment manufacturer files an unauthorised application for an important part of the product on 17th March 2013 based on a trivial improvement over the specification documents provided by the company. In this example, the failure of the organisation to act proactively today in the face of confusion not only could result in the loss of its own ability to file a patent application, but in the worst case could also permit other parties to obtain unauthorised patents based on ideas received from the company.

As another example, suppose that in January 2014 a company faces a potential lawsuit based on a newly issued patent owned by a third-party. In theory, the company might have potential knowledge of various possible disclosures of information in the public domain in 2011 and 2012 that are not patents or printed publications. Additionally, the company may have interacted with the patent holder in 2012 and have reason to believe that the patent is based on ideas received from the company. The AIA has specific provisions that the company might use to protect itself. The problem is that if the company does not upgrade its internal record keeping today, it may be unable in 2014 to satisfy its evidentiary burden to utilise the full basket of defences available to it under the AIA.

**Summary of major changes**

There are several major changes to the US patent system that affect the US patent landscape, as well as several minor ones. Additionally, different portions of the AIA come into effect on different dates. Some of the changes occurred upon passage; others will occur a year after passage; and some 18 months after passage.

**Changes effective 16th September 2011**

The US Patent Act requires a patent application to disclose the best mode contemplated by the inventor of carrying out the invention. However, under the AIA, the failure to disclose the best mode cannot be used in any litigation commenced after passage of the AIA to find a claim invalid or unenforceable. That said, the best mode requirement still applies during prosecution before the USPTO. Thus, in theory, it could

**Summary of aspects of selected sections of the America Invents Act**

AIA section	Comments
<b>Derivation actions</b>	In the worst case, derivation provides narrow protection for unauthorised filing of patents by third parties limited to direct copying of an inventive idea. Thus, derivation is unlikely to provide protection for derivation-in-part scenarios, in which one party learns of the confidential information of another party and files its own unauthorised patent for minor improvements over the original ideas.
<b>Post-grant review</b>	Post-grant review permits third-party patents to be challenged within nine months of grant on novelty (35 USC 102), obviousness (35 US 103), definiteness/enablement (35 USC 112), and patentable subject matter (35 USC 101). The broader avenues of attack may favour its use in certain situations.
<b>Inter partes review</b>	Limited to attacking patents for invalidity based on novelty and obviousness based on patents and publications in time periods when post-grant review is not applicable
<b>102 (novelty) grace period</b>	The one-year grace period for the inventor to file a patent application after the inventor's own publication is likely to be limited to narrow protection for precisely the same invention disclosed by the inventor's earlier publication. However, in some circumstances, use of the grace period may be useful for certain situations and classes of invention.
<b>Commercial use defence</b>	The usefulness of the defence may be limited by ambiguity in the wording of the section and the high evidentiary burdens. Still, in some situations this may be a useful defence.

still become an issue during original prosecution, reissues or in any of the other substantive proceedings before the patent office after issuance of a patent.

The AIA expands the prior commercial use defence by amending 35 USC §273 for patents issued on or after 16th September 2011 to provide a prior commercial use defence that includes processes, machines, manufactures and compositions of matter used in manufacturing and commercial processes. The prior commercial use must be a domestic use in the United States “in connection with an internal commercial use or an actual arm’s length sale or other arm’s length commercial transfer or a useful end result of such commercial use”. The commercial use must have occurred at least one year before the earliest of the effective filing date of the claimed invention or the date on which the claimed invention was publicly disclosed. However, given the one-year grace period under US law, this means that in the worst case the commercial use would have to be for more than two years before the effective filing date of the patent.

Additionally, there is a high standard to use the defence. The party asserting the defence has the burden of proving prior commercial use by the clear and convincing evidence standard. If the defence is

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unreasonably asserted, the party charged with patent infringement may also be liable for the patent holder's attorneys' fees. Thus, a practical problem of using the commercial use defence is that the defendant may have to prove continuous use for more than two years before the filing date of the patent with enough confidence in its evidence that it can satisfy the clear and convincing evidence standard.

The AIA modifies 35 USC §292 to limit severely and curtail false marking lawsuits. Only the United States or “[a] person who has suffered a competitive injury” may bring a false patent marking lawsuit. The AIA clarifies that marking a product with an expired patent does not constitute false marking. Additionally, the AIA permits virtual marking under 35 USC §287 as an option to provide notice to preserve rights to pre-filing damages. The notice required to collect pre-filing damages may be provided by fixing on the patent product the word “patent” (or its abbreviation), together with an address of an internet posting that associates the patented article with the number of the patent. The combination of the limitations on false marking lawsuits and virtual marking may favour marking products. This is because downside risks of false marking liability are now low and virtual marking provides a convenient and flexible way to mark products.

#### Changes effective 16th September 2012

As of 16th September 2012, the United States will change its re-examination procedures. Post-grant review under 35 USC § 321 allows third-parties, no later than nine months after a patent has been granted or reissued, to seek to cancel one or more claims on any basis that the patent could have been found invalid during litigation, based on a preponderance of evidence

standard. Thus, in addition to novelty and obviousness, the validity of a patent could be challenged in a post-grant review on the basis of definiteness (35 USC 112) and statutory subject matter (35 USC 101). The petitioner must present sufficient information to demonstrate that it is more likely than not that at least one of the claims challenged in the petition is unpatentable. The types of evidence permitted include patents, printed publications, affidavits or declarations of supporting evidence, and expert opinions.

*Inter partes* review under 35 USC § 311 will replace *inter partes* re-examination. *Inter partes* review is not applicable during time periods when post-grant review is applicable – that is, *inter partes* review may be filed after a date that is the later of nine months after grant or the date of termination of a post-grant review. In *inter partes* review, anticipation or obviousness can be established only for lack of novelty and obviousness on the basis of patents and printed publications. The petitioner must provide a showing that there is a reasonable likelihood that the petitioner would prevail with respect to at least one of the claims challenged in the petition.

As of 16th September 2012, a patent owner can request supplemental examination of a patent in the USPTO under 35 USC §257 to consider, reconsider or correct information believed to be relevant to patentability. Through supplemental examination the patent holder can, before filing a patent suit, use patent office proceedings to attempt to eliminate issues that might render the patent unenforceable in a later lawsuit.

#### Changes effective 16th March 2013

As of 16th March 2013, 35 USC 102 will be amended and the United States will switch to a first-to-file system for applications with an effective filing date/priority date on or after 16th March 2013. However, a one-year grace period is provided after the inventor's own disclosures. The switch to a first-to-file system also includes the elimination of interference proceedings. Instead, the AIA allows for civil actions and administrative proceedings to correct the name of the inventor on an application if the subject matter was derived from another and the application was filed without authorisation. These changes are described in more detail later in this article.

#### Simple strategies for dealing with the AIA

How does a company deal with the AIA in

terms of comparatively simple internal changes?

One option for the transition to a first-to-file system is to consider a tiered approach to patent matters. Many companies already use such approaches in the context of considering applications of sufficient worth to justify foreign filings. The difference with the AIA is that new strategies can be employed because of the one-year grace period for the inventor's own disclosures. Intentionally disclosing certain classes of invention might be a useful strategy in some circumstances.

Under the AIA, the entity that first discloses an invention effectively bars third-parties from subsequently filing a valid patent for the same subject matter. However, there is still the one-year grace period for the company to file an application after it discloses its own invention. Of course, as a practical issue, there are evidentiary issues to consider. The AIA uses disclosure to describe an exception, but does not provide clear guidance on the form that the disclosure must take or the evidentiary standard required for the inventor's disclosure. One interpretation could be that the disclosure might be satisfied under any of the broad provisions in 35 USC 102(a), and that the level of public accessibility need only match that of previous court cases. However, a more conservative approach for an intentional disclosure would be to rely on a printed publication having a direct correspondence, in content, to any later possible filing and to publish in a forum with enough public accessibility to clearly meet the standards of a publication under the most conservative interpretation of existing case law.

If a company is cash strapped, this can be a useful strategy to postpone costs and save resources. There are also other strategic options. For example, a provisional application can be filed a day before a public disclosure. The provisional may be used to preserve international rights, while the US filing may be made within the grace period either with or without claiming priority to the provisional application. This situation could arise, for example, if an extra year of term was an option worth preserving.

Another option is to consider upgrading internal record-keeping policies in view of the AIA. What was disclosed? When? How? To whom? This information can be useful to confirm that there are no problems with applications filed after the first-to-file provisions take place. However, they may also be useful to provide a source of evidence to file derivation proceedings, post-grant review petitions and *Inter partes*

**Summary of some practical strategies for dealing with the America Invents Act**

AIA diligence	Concerns
Consider improved record keeping in view of the AIA	Improved record keeping should be considered to satisfy evidentiary burdens if an organisation wants to prove up cases under the new novelty standard, derivation actions, commercial use defence and other sections of the AIA.
Consider improving expectations of confidence for wider range of disclosures in view of the AIA	The AIA expands the range of activities that may be considered prior art disclosures such that consideration should be given to taking proactive measures to document expectations of confidentiality in situations in which a formal NDA is not in place.
Consider reviewing the disclosure agreements contracts for possible an organisation.	Consider whether existing agreements are adequate in view of the possibility that the AIA provides only narrow protection and against a third party disclosing and/or filing patents on ideas learned from revisions in view of the AIA
Consider revising docketing actions and disclosure policies early in view of the phase-in of the new Section 102 on 16th March 2013	Consider changing policies on confidentiality and docketing procedures as soon as possible to avoid being caught in the situation of disclosing information prior to the transition date that will later invalidate patent filings made after the transition date.
Consider a tiered approach to public disclosures by the inventor	Consider, as an option for certain situations, publication before filing for certain classes of invention to reduce costs or provide other benefits.
Consider virtual marking	Consider whether the changes to false marking and the possibility of virtual marking weigh in favour of using virtual marking of products to provide notice for pre-filing damages.

review. To fully utilise the prior commercial use defence also requires potential upgrades to internal record keeping.

Still another option is to consider what can be done contractually to minimise risks. This can include the review and possible upgrade of non-disclosure agreements and contracts in view of the AIA. For example, modifications to existing agreements and contracts might be made to provide better protection and assurance that the parties will respect the full range of disclosures under the AIA, notify each other of potentially triggering events and spell out in greater detail any ambiguities related to ownership in view of the AIA.

Simple changes in internal policies, such as providing notice of an expectation of confidentiality, might also be useful in some contexts, such as marking slides and documents with confidential stamps. While many companies already do such things, the AIA may make it prudent to keep better records of an expectation of confidentiality in situations where a formal non-disclosure agreement is not possible. Even if such

## Action plan



Following the enactment of the America Invents Act, all organisations with an interest in the US patent system should:

- Plan proactively for the phase-in of different provisions of the AIA.
- Consider upgrading internal record keeping to make the best use of derivation proceedings, the commercial use defence and other provisions of the AIA.
- Consider reviewing the language of old non-disclosure agreements, contracts and confidentiality notice language to comport with the AIA, and to clarify any confidentiality and ownership issues in view of changes to 35 USC §§102-103.
- Assume that the exceptions to absolute novelty may be narrowly interpreted to precisely the same invention disclosed by the inventor within the grace period.
- Assume that derivation actions will likely be limited to exactly the same invention received by the party that files an authorised patent application.
- Consider whether there are classes of innovation for which intentional disclosure may be the best use of resources.

techniques are not ideal, they are better than nothing and bolster arguments that oral discussions were not public disclosures under the AIA.

For patent holders, virtual marking should also be considered as an option to provide notice under the marking statute to preserve pre-filing damages. Additionally, patent holders should consider performing a review of strategic patents to determine whether a subset is a candidate for supplemental examination in order to strengthen the patents for possible assertion.

### Minimising risks under the new first-to-file provisions

One risk under the AIA is that the grace period for 35 USC 102 and derivation proceedings may give companies a false sense of complacency. It is worth nothing that the AIA can be interpreted in a manner in which the exceptions to absolute novelty are interpreted as narrow carve-outs. This should be considered in any strategy to exploit the full benefits of the AIA.

One aspect of the grace period of 35 USC 102(b) is that similar language does not appear in the revised 35 USC 103 obviousness standard. Consider first the issue of disclosures by the inventors and by others. Section 102(a) of the AIA deals with novelty and states that a person shall be entitled to a patent unless “the claimed invention was patented, described in a printed publication, or in public use, on sale, or otherwise available to the public before the effective filing date of the claimed invention”. However, Section 102(b)(1) provides as an exception that a disclosure made one year or less before the effective filing date of a claimed invention is not prior art to the claimed invention under Section 102(b)(1)(A) if “the disclosure was made by the inventor . . . or by another who obtained the subject matter disclosed directly or indirectly from the inventor”, or under Section 102(b)(1)(B) if “the subject matter disclosed had, before such disclosure, been publically disclosed by the inventor . . . or another who obtained the subject matter disclosed directly or indirectly from the inventor”. Section 102(b)(2) has a similar provision of disclosures appearing in applications and patents.

What do the exceptions in 35 USC 102 mean? One aspect of the new Section 102 is that its exceptions encourage early publication. Clearly, the original inventor – or someone acting on his behalf – can disclose the invention and the inventor is still permitted to file a patent application within one year claiming the same subject

matter that was disclosed. However, Section 103 (obviousness) is silent about the one-year grace exceptions. Moreover, Section 102(b) explicitly states that it is referring to Section 102(a)(1) – novelty. In practice, this means that a strict interpretation of the AIA is that an inventor can publish an invention for subject matter A and not be entitled to later filing claims within one year for even minor variations over A. It is also unclear from the AIA how a sequence of disclosures of different scope and technical detail by the inventor will affect the grace period exceptions of 35 USC 102.

As a practical matter, the grace period exception to 35 USC 102 favours making comprehensive disclosures if the intention is to exploit the grace period exception. Of course, it is possible that the courts might eventually invoke various doctrines to more expansively interpret the grace period exceptions for obvious variants. However, it would be prudent in strategy planning to assume that the AIA will be interpreted as providing narrow carve-outs.

Derivation actions may also provide insufficient relief to deal with misappropriation. The AIA provides two forms of relief when a party derives the subject matter of an invention from another and files an authorised application. First, a civil action can be filed to obtain relief. Second, derivation proceedings may be filed in the patent office.

Civil actions may be filed for issued patents to resolve ownership issues: “The owner of a patent may have relief against the owner of another patent that claims the same invention and has an earlier filing date.” If a civil action is filed, it must be before the end of the one-year period beginning on the date of the issuance of the first patent containing a claim to allegedly derived invention and naming an individual alleged to have derived the invention as the inventor. Administrative proceedings in the patent office are another avenue to resolve ownership issues. In derivation proceedings an applicant for patent may file a petition to institute a derivation proceeding in the USPTO, but the petition may be filed only within the one-year period beginning on the date of the first publication of a claim to an invention that is the same or substantially the same as the earlier applications claim to the invention.

There are several problems with derivation actions. The most basic is that under a narrow interpretation, they are limited to derivation of the same invention and thus exclude derivation-in-part, where one party builds off of the innovation of

another. Moreover, while the statute is not explicit, the older interference proceedings imply that the party arguing derivation must have conceived of a complete invention – that is, one that satisfies the enablement requirement. Moreover, there are also the basic evidentiary issues associated with proving unauthorised filing of a patent application for subject matter invented by the petitioner.

As an illustrative example, consider a company that uses both strategic partners and original equipment manufacturers. If the company provides detailed blueprints and technical specifications to the original equipment manufacturer, then derivation proceeding might be useful to correct inventorship if the manufacturer files a patent application based solely on the materials it received. However, for the case of a strategic partner that makes improvements or develops a practical implementation, the situation is more complex if the strategic partner files a patent application. In this case it is possible that derivation proceedings will not be

effective because the claimed invention is not exactly the same as what was disclosed to the strategic partner.

**Now is the time to review internal policies**

In summary, the AIA has fundamentally altered many aspects of US patent practice. An organisation can choose to act in a reactive manner to the phased roll-out and follow a conservative general purpose international filing strategy. However, such a policy will fail to provide an organisation with all of the potential benefits of the AIA. Thus, an organisation interested in filing, acquiring, asserting or defending itself against patents should consider whether it needs to put into place a comprehensive review of its practices in view of the AIA. *iam*

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