

AMERICA INVENTS ACT: HOW LANDMARK PATENT REFORM LEGISLATION WILL IMPACT IDAHO INVENTORS AND COMPANIES

Dana M. Herberholz
Zarian Midgley & Johnson, PLLC

To say that technology has advanced since 1952 would be an understatement. In the past 60 years, American innovation produced the polio vaccine, put men on the moon, and fundamentally changed the way in which the world communicates. From switchboards to smart phones, technology has undeniably redefined our way of life. While technology has advanced immeasurably in the past five decades, the U.S. Patent Act¹ – the law designed to facilitate and protect innovation – has not. Congress is well on its way to passing legislation in an attempt to match the U.S. patent system to the reality of this century.

This article provides a basic primer on the mechanics of the first-to-invent system currently in place in the United States as well as the first-inventor-to-file system proposed in the legislation. The article summarizes arguments for and against a first-inventor-to-file system, discusses Idaho's unique role in the debate over patent reform legislation, and concludes by analyzing how this landmark legislation will impact Idaho inventors if signed into law.



Dana M. Herberholz

Background on the proposed changes

The last major overhaul of the Patent Act occurred in 1952, and American inventors and corporations have felt the impact of this outdated legislation for some time. In 1952, less than 70,000 patent applications were filed at the U.S. Patent and Trademark Office (“USPTO”).² Last year, the USPTO received over 500,000 patent applications, and the office is currently struggling with a backlog of over 700,000 patent applications.³ With this backlog and the lack of adequate resources, a patent application remains pending at the USPTO for an average of nearly three years.⁴

On March 8, 2011, in an attempt to address these concerns, the U.S. Senate passed a substantial revision to the Patent

Congress is well on its way to passing legislation in an attempt to match the U.S. patent system to the reality of this century.

Act, the America Invents Act (“the Act”), by an overwhelming, bipartisan vote of 95-5.⁵ On March 30, 2011, the U.S. House of Representatives unveiled a substantially similar version of the Act (H.R. 1249).⁶ Supporters of the Act argue that it will improve efficiency at the USPTO, stimulate the economy, create jobs, and weed-out questionable patents.⁷ The Act has garnered widespread support, and the Senate's passage of the Act drew praise from President Obama, who is eager to sign patent reform legislation into law.⁸

But others are skeptical. Both of Idaho senators⁹ and Idaho's largest high-tech company, Micron Technology, Inc. (“Micron”)¹⁰ oppose the legislation in its current form. Perhaps the most controversial provision of the Act is the proposed change from a nation that, since 1790, has awarded patents to the first-to-invent to a nation that awards patents to the first-to-file a patent application on the invention. If signed into law, the legislation will substantially change the manner in which patent applications are examined and the manner in which United States patents are ultimately awarded.

From invention date to filing date

Current law provides a rebuttable presumption that the first to file a patent application made the invention before the second to file a patent application on the same invention and is, therefore, entitled to priority to the invention.¹¹ The later-filing party may rebut this presumption, however, if she can show that she was the first to “conceive” the invention and that she exercised reasonable diligence in reducing the invention practice.¹² This is done through interference proceedings—the highly technical and costly administrative procedure for resolving disputes between inventors claiming priority to the same invention.¹³ Because the Act awards

priority to the first-inventor-to-file without regard to the inventors' respective dates of conception, passage of the Act will eliminate these priority contests and will encourage inventors to file their patent applications quickly.

The Act also redefines and broadens the scope of prior art that the USPTO may use to reject a patent application. Under current law, an applicant is not entitled to a patent if the invention was “known or used” by others in the United States “*before the invention*” thereof by the applicant” or if the invention was patented or described in a printed publication in the United States or a foreign country “*before the invention*” thereof by the applicant.¹⁴ Accordingly, because the date of invention may be as early as the date on which the inventor conceived the invention, under current law, an inventor may overcome a rejection based on prior art that predates her patent application but post-dates the date on which she conceived the invention.¹⁵ This procedure is referred to as “swearing behind” or “antedating” the prior art.¹⁶

The proposed legislation, however, redefines prior art in this section of the Patent Act as that which was available to the public “*before the effective filing date* of the claimed invention...”¹⁷ Accordingly, applicants will no longer be able to overcome rejections by swearing behind prior art unless (1) the subject matter of the prior art was obtained from the inventor or (2) the inventor disclosed his invention before the date of the prior art.¹⁸ Because the Act redefines prior art as that which existed before the *filing date* of the patent application, the applicant's date of invention will no longer define what is and is not prior art to a patent application if the Act is signed into law.¹⁹

Arguments in support of the act's first-inventor-to-file provisions

Reception of the Act has been mixed, and the substantial focus of the controversy has been directed at the legislation's first-inventor-to-file provisions. Proponents of the Act note that every industrialized nation other than the United States employs a first-to-file patent system. They argue that transition to a first-inventor-to-file system will harmonize United States patent law with the laws of every other country. This, according to the Senate bill's sponsor, Senator Patrick Leahy (D-VT), "will provide American inventors a more efficient system for obtaining patent protection globally."²⁰ In addition, proponents argue that the Act promotes public policy by encouraging early disclosure of inventions, regardless of whether inventors ultimately seek patent protection for their inventions.²¹

Proponents also argue that a first-inventor-to-file system will promote fairness, provide transparency, and simplify the process of obtaining and enforcing patents.²² Under the proposed first-inventor-to-file system, an inventor need not worry that her patent application will be rejected based on a later-filed application by another who was the first to conceive the invention.²³ In addition, the first-inventor-to-file system will ensure that those sued for patent infringement can clearly identify prior art without fear that the patent holder will swear behind that prior art by claiming an invention date that may be months, or even years, before the patent holder filed her application.

Support for the Act has been widespread. Large companies, such as IBM, support the legislation,²⁴ as do some small business groups such as the Small Business & Entrepreneurship Council, who criticized the current first-to-invent system as "ambiguous and costly," and "bad news for businesses and individual inventors."²⁵ The Obama administration also supports the legislation and its first-inventor-to-file provisions, believing that the law will "increase transparency and certainty for inventors."²⁶

Arguments against the act's first-inventor-to-file provisions

Opponents of the Act offer several arguments against the proposed first-inventor-to-file system, most based on fear that the proposed system will hurt independent inventors and small businesses. Critics argue that the legislation establishes a "race to the patent office" that favors large corporations with research and development budgets, in-house patent counsel and oth-

Although Idaho's Senators agree that the Patent Act is outdated and in need of revision, neither believes that the legislation is acceptable in its current form.

er resources to beat independent inventors and small businesses in these races to the patent office. The National Small Business Association succinctly summarized these concerns:

By repealing the invention date as the priority date, compared to prior art, the pressure to establish filing date priority will require applicants to file more frequently, at every stage of development, without perfecting their inventions. The costs of increased filings—more frequent invention reviews, earlier and more frequent hiring of outside patent attorneys, and new patenting costs—will be felt most strongly by small businesses. Some small firms will lose their patent protection altogether, as they will be unable to afford a doubling of their application filing rate.²⁷

But the most-criticized aspect of the first-inventor-to-file system is the erosion of the one-year "grace period" currently afforded to inventors.²⁸ This grace period allows an inventor to publically use, sell, offer to sell, or disclose her invention (for example, at a trade show) to market the invention so long as she files a patent application within one year of such activity.²⁹ The grace period in the proposed legislation, however, extends only to "a disclosure made 1 year or less before the effective filing date of the claimed invention...." In part because the Act does not define "a disclosure," opponents believe that the proposed legislation, excludes from the grace period public use, sales, and offers to sell the invention. Accordingly, if such activities are not subject to the one-year grace period, an inventor who offers his invention for sale and files a patent application on that invention the following day, for example, may forfeit his patent rights.³⁰ One outspoken critic of the legislation says changing this grace period "stabs a dagger in the heart of the U.S. Patent bargain."³¹

Idaho's voice in the debate

While historically famous for potatoes, Idaho has become one of the nation's

leaders in innovation. In 2000, 1,616 patents issued to Idaho inventors compared to just 192 a decade earlier.³² Idaho is now a leader in patents issued per capita, and in 2009, Forbes.com ranked Idaho as number two on its list of the Top 15 Most Creative States.³³ To sustain this growth and to foster the growth of more high-tech companies in Idaho, passing suitable patent reform legislation should be a priority for Idaho's legislators.

Although Idaho's Senators agree that the Patent Act is outdated and in need of revision, neither believes that the legislation is acceptable in its current form. Senators Risch and Crapo both voted against the Senate bill,³⁴ and both cosponsored Sen. Feinstein's (D-CA) unsuccessful amendment to remove the first-inventor-to-file provisions of the legislation.³⁵ In anticipation of this article, Senator Risch provided the author with a written statement, including this excerpt:

For some time there has been nearly unanimous consensus to reform our outdated patent laws and I have supported these efforts. However, I could not support the final version of this legislation because it fundamentally shifts our patent system in a way that hurts America's innovative leadership while trying to conform to other patent systems outside the U.S. This change does not help the U.S. compete in the global marketplace because it shifts the focus from innovation to knowledge of the patent filing system.³⁶

Senator Crapo's office fears that the legislation will hurt Idaho's small businesses and Idaho's high-tech industry:

For a Senator from Idaho, it is important to take into account the impact of any patent reform proposal on Idaho's high-tech industry. Idaho's high tech industry has consistently been among the leaders in the nation and the world in innovation and patent generation. The patent reform bill proposed in the Senate was opposed by many high-tech and small business groups. Sena-

tor Crapo supported many amendments during Senate consideration of the bill, which were intended to improve the bill and create a greater balance, so that the movement toward patent reform would not be tilted against small business and high-tech industries.³⁷

Like Senators Risch and Crapo, Micron strongly supports patent reform legislation and believes that revising the Patent Act will boost the economy. In 2009, before the Senate Judiciary Committee, Steven Appleton, Chairman and Chief Executive Officer of Micron, testified:

[F]laws in our outdated patent law are shackling our most innovative companies — slowing development of new products and services and the new jobs they would create, and diverting substantial resources that otherwise would be devoted to research and development into litigation costs. The longer we wait to address these widely-acknowledged problems, the more we will deplete the innovation potential of the technology industry and deprive our economy of the resulting job creation and growth.³⁸

Micron and Hewlett-Packard, whose printer operations are located in Boise, are also members of the Coalition for Patent Fairness (the “Coalition”) — a trade group whose members include Apple, Autodesk, Cisco Systems, Dell, Google, Intel, Oracle, RIM, SAP, and Symantec. The Coalition believes that patent reform is necessary to discourage “burdensome unjustified patent litigation” and to prevent continued abuse of the patent system.³⁹ Like Senators Risch and Crapo, however, the Coalition opposes the legislation, including its first-inventor-to-file provisions. The Coalition does not appear to oppose a first-to-file system as a general concept;⁴⁰ however, it opposes the first-inventor-to-file system proposed in the Senate bill because it does not provide safeguards for “prior users” accused of patent infringement.⁴¹ Notably, the House bill includes defenses for prior users.⁴²

Those in favor of including defenses for prior users in the legislation, including large companies that do not seek patent protection for all of their inventions, fear that the failure to include a prior use defense will encourage lawsuits. For example, Cisco Systems, Inc., is concerned that “domestic opportunists and offshore adversaries will accelerate the patent mills they have today to file [patent applications] on every minor change in an American product, and then use our courts to try to extract damages from the true innova-

Despite Idaho’s opposition to the legislation, the Act is a significant step in the right direction to reforming an extremely outdated body of law.

tors here....”⁴³ But those opposed to including a defense for prior users find such fears unfounded and unrealistic in light of Supreme Court case law.⁴⁴ Gene Quinn, a Registered Patent Attorney and founder of a renowned intellectual property law blog, believes that including a prior use defense “reward[s] those who hide innovation from the public and penalizes those who disclose their inventions to the public.”⁴⁵

In the end, the debate over including a prior use defense in the final legislation may be the “poison pill that kills patent reform.”⁴⁶ Indeed, on April 14, 2011, the House Judiciary Committee approved the House bill (with the prior user provisions), and the bill is now on its way to a vote before the full House of Representatives.⁴⁷ Whether Idaho’s Representatives will support or oppose the bill, including its prior user provisions, remains to be seen.

Patent reform legislation’s impact on Idaho inventors

If Congress passes patent reform legislation with the proposed first-inventor-to-file system, the impact will be felt far beyond Silicon Valley and will undoubtedly affect Idaho inventors. Passage of the legislation should encourage Idaho inventors to file patent applications for their inventions as early as possible. Because the legislation broadens the scope of prior art⁴⁸ and narrows the one-year grace period currently afforded to inventors,⁴⁹ Idaho inventors can expect more difficulty obtaining patents, particularly where the technology area is well-developed and crowded with prior art.

Whether the Act is signed into law, Idaho inventors should carefully consider whether obtaining patent protection is right for them. Applying for a patent can be costly and time consuming, and it may be in the inventor’s best economic interests to forego patent protection and maintain the invention as a trade secret.⁵⁰ Idaho inventors should also consider filing a provisional application at their earliest opportunity. A provisional application is

not examined by the USPTO⁵¹ and serves as a placeholder to preserve the inventor’s patent rights for one year.⁵² Filing a provisional application — even under the proposed first-inventor-to-file regime — will allow the inventor to market her invention without fear that her post-filing conduct will jeopardize her patent rights. If the inventor wishes to pursue patent protection on her invention after filing a provisional application, she must file a utility application within one year of filing the provisional application.⁵³ With a filing fee of only \$110 for small entities, a provisional application is a relatively inexpensive method of preserving one’s patent rights and ensuring that another will not beat the inventor in the feared race to the patent office.⁵⁴

Despite Idaho’s opposition to the legislation, the Act is a significant step in the right direction to reforming an extremely outdated body of law. Transition to a first-inventor-to-file system will bring much needed clarity to inventors who seek patent protection, to parties who seek to avoid infringing others patent rights, and to patent holders and accused infringers in patent infringement litigation.

About the Author

Dana M. Herberholz is an attorney with Zarian Midgley & Johnson, PLLC where his practice emphasizes patent litigation and complex litigation. He has a B.S. in Cellular and Molecular Biology from the University of Washington and received his J.D. from Gonzaga University School of Law. Dana serves as Chair of the Intellectual Property Law Section of the Idaho State Bar.

Endnotes

¹ 35 U.S.C. §§ 1-376.

² Table of Annual U.S. Patent Activity Since 1790, U.S. Patent and Trademark Office, available at http://www.uspto.gov/web/offices/ac/ido/oeip/taf/h_counts.htm.

³ U.S. Patent and Trademark Office Data Visualization Center, available at <http://www.uspto.gov/dashboards/patents/main.dashxml> (last visited May 2, 2011).

⁴ *Id.*

⁵ America Invents Act (“AIA”), S.23, 112th Congress (2011), available at <http://www.gpo.gov/fdsys/pkg/BILLS-112s23es/pdf/BILLS-112s23es.pdf>.

⁶ America Invents Act (“AIA”), H.R. 1249, 112th Congress (2011), available at <http://www.gpo.gov/fdsys/pkg/BILLS-112hr1249ih/pdf/BILLS-112hr1249ih.pdf>.

⁷ Press Release, Senator Patrick Leahy (D-VT), available at <http://leahy.senate.gov/imo/media/doc/PRESS-GoodForJobs-OnePager-FINAL.pdf>.

⁸ See Statement by the President on Senate Passage of the America Invents Act (March 8, 2011), available at <http://www.whitehouse.gov/the-press-office/2011/03/08/statement-president-senate-passage-america-invents-act>.

⁹ U.S. Senate Roll Call Votes, (S.23 as Amended), 112th Congress, available at http://www.senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=112&session=1&vote=00035.

¹⁰ See Press Release, *Coalition for Patent Fairness Statement on Passage of S. 23*, Coalition for Patent Fairness (March 8, 2011), available at <http://www.patentfairness.org/media/press/>.

¹¹ *Falko-Gunter Falkner v. Inglis*, 448 F.3d 1357, 1361 n. 2 (Fed. Cir. 2006).

¹² *Cooper v. Goldfarb*, 154 F.3d 1321, 1327 (Fed. Cir. 1998).

¹³ See 35 U.S.C. § 135.

¹⁴ 35 U.S.C. § 102(a) (emphasis added).

¹⁵ 37 C.F.R. § 1.131.

¹⁶ *Id.*

¹⁷ AIA § 102(a) (emphasis added).

¹⁸ AIA, § 102(b)(1); Filing-Date-Focused System – *The Key is the Scope of the Grace Period*, Patentlyo.com, March 2, 2011, <http://www.patentlyo.com/patent/2011/03/filing-date-focused-system-the-key-is-the-scope-of-the-grace-period.html>.

¹⁹ AIA § 102(a)(1).

²⁰ See e.g., Press Release, Senator Patrick Leahy (D-VT), available at <http://leahy.senate.gov/imo/media/doc/PRESS-FirstInventorToFile-OnePager-FINAL.pdf>.

²¹ *Id.*

²² *Id.*

²³ See *id.*

²⁴ IBM Intellectual Property Law Blog, *IBM Hails Introduction of Patent Reform Legislation in U.S. House of Representatives*, dated March 31, 2011, <http://ibmip.com/2011/03/31/ibm-hails-introduction-of-patent-reform-legislation-in-u-s-house-of-representatives/>; IBM Intellectual Property Law

Blog, *IBM Commends Senate Approval of Patent Reform Bill*, dated March 8, 2011, <http://ibmip.com/2011/03/08/ibm-commends-senate-approval-of-patent-reform-bill/>.

²⁵ Letter from Karen Kerrigan, President & CEO of the Small Business & Entrepreneurship Council, to Members of the United States Senate (Feb 28, 2011), available at <http://www.sbecouncil.org/legaction/display.cfm?ID=4259>.

²⁶ Statement of Administration Policy, S.23, America Invents Act (February 28, 2011), available at http://www.whitehouse.gov/sites/default/files/omb/legislative/sap/112/saps23s_20110228.pdf; Statement by the President on Senate Passage of the America Invents Act (March 8, 2011), available at <http://www.whitehouse.gov/the-press-office/2011/03/08/statement-president-senate-passage-america-invents-act>.

²⁷ Letter from Todd O McCracken, President of the National Small Business Association, to Senator Harry Reid (D-NV) (February 15, 2011), available at http://www.nsbabiz/docs/patent_reform.pdf.

²⁸ *Id.*

²⁹ 35 U.S.C. § 102(b).

³⁰ See AIA § 102(b)(1)(B); see also Filing-Date-Focused System – *The Key is the Scope of the Grace Period*, Patentlyo.com, March 2, 2011, <http://www.patentlyo.com/patent/2011/03/filing-date-focused-system-the-key-is-the-scope-of-the-grace-period.html>.

³¹ John Schmid, *Patent System Reforms Can Squeeze Out Startups*, Milwaukee Journal Sentinel, March 22, 2011, available at <http://www.jsonline.com/business/118475979.html>.

³² Patent Counts by Country/State and Year, U.S. Patent and Trademark Office, p. 1, available at http://www.uspto.gov/web/offices/ac/ido/oeip/taf/cst_all.pdf.

³³ Melanie Linder, *The Most Creative States*, Forbes.com, May 7, 2009, available at <http://www.forbes.com/2009/05/07/ibm-xerox-intel-entrepreneurs-technology-patents.html>.

³⁴ U.S. Senate Roll Call Votes, *supra* note 9.

³⁵ S. Amend 133, 112th Cong. (2011) (amendment to S.23), Cong. Rec. March 2, 2011 S1145-1146, available at <http://www.gpo.gov/fdsys/pkg/CREC-2011-03-02/pdf/CREC-2011-03-02-pt1-PgS1145-2.pdf#page=1>.

³⁶ Written statement from Senator James E. Risch to author (April 8, 2011).

³⁷ Written statement from Lindsay Northern, Press Secretary to Senator Mike Crapo, to author (April

5, 2011).

³⁸ *The Patent Reform Act of 2009: Hearing on S.515 Before the Senate Comm. on the Judiciary*, March 10, 2009, 111th Cong. (testimony of Steven R. Appleton, Chairman and Chief Executive Officer, Micron Technology, Inc.), available at <http://judiciary.senate.gov/pdf/09-03-10Appletontestimony.pdf>, pp. 1-2.

³⁹ Coalition for Patent Fairness, *Why Change is Needed*, <http://www.patentfairness.org/learn/why/>.

⁴⁰ See Press Release, *CPF: Committee Action on Patent Reform Bill an “Important Step Forward” on Meaningful Reform*, Coalition for Patent Fairness (April 2, 2009) (praising the Senate Judiciary Committee for advancing out of committee S. 515, the Patent Reform Act of 2009, which included a first-to-file provision), available at <http://www.patentfairness.org/media/press/>.

⁴¹ Press Release, Coalition for Patent Fairness (March 30, 2011), available at <http://www.patentfairness.org/media/press/#2011-03-30-1>.

⁴² See AIA (H.R. 1249) § 273.

⁴³ America Invents Act: *Hearing on H.R. 1249 Before the U.S. House of Representatives*, 112th Cong. (Prepared Statement of Mark Chandler, Senior Vice President and General Counsel, Cisco Systems Inc.), March 30, 2011, available at <http://judiciary.house.gov/hearings/pdf/Chandler03302011.pdf>, p. 5.

⁴⁴ Gene Quinn, *Sensenbrenner to Kappos: Prior User Rights is Poison Pill*, IPWatchdog.com, March 30, 2011, <http://ipwatchdog.com/2011/03/30/sensenbrenner-to-kappos-prior-user-rights-is-poison-pill/id=16082/>.

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ Press Release, United States House of Representatives Committee on the Judiciary, *Committee Approves Patent Reform Proposal* (April 14, 2011), available at <http://judiciary.house.gov/news/Patent%20Reform.html>.

⁴⁸ AIA § 102(a)(1).

⁴⁹ AIA § 102(b)(1).

⁵⁰ Although trade secrets rights are beyond the scope of this article, see the Idaho Trade Secrets Act for more information. Idaho Code §§ 48-801-807.

⁵¹ Manual of Patent Examining Procedure §201.04(b).

⁵² See 35 U.S.C. §§111(b), 119(e).

⁵³ *Id.*

⁵⁴ 37 C.F.R. §§ 1.16(d), 1.27(a).