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AMERICAN INVENTORS PROTECTION ACT

The final provisions of the American Inventors Protection Act of 1999 (“AIPA”) became effective on November 29, 2000. The AIPA fundamentally changed many aspects of the patent application process in the United States. Accordingly, the U.S. Patent and Trademark Office (PTO) has issued many new rules to implement these statutory changes.

To assist you in managing your patent assets, this memorandum describes the most significant changes prompted by the AIPA. Because many of the changes are fairly detailed and complex, we advise a full-reading of the new rules and consultation with patent counsel in connection with particular inventions and applications.

I. Executive Summary of Changes

A. Pre-Grant Publication and Provisional Rights

- A non-provisional utility application filed on or after November 29, 2000 will be published approximately eighteen (18) months from the earliest claimed filing date. After publication, third parties will be able to obtain (for a fee paid to the PTO) a copy of the file wrapper contents for the published application.
- Publication can be avoided by filing with the application a certification that the application has not been, and will not be, filed in any other country that requires publication.
- An applicant can request publication of an application pending on November 29, 2000, or request publication before the 18-month mandatory publication date.
- The publication process will require that all drawing and sequence listing requirements be satisfied upon or shortly after filing, rather than waiting until the close of prosecution.
- After publication of an application, third parties will be able to submit patents and printed publications to the PTO for use in prosecution and examination of a particular application. However, such submissions cannot include any discussion of the submitted documents or the claimed invention.
- A published application will qualify as prior art under 35 U.S.C. § 102(e) as of its filing date.

- An owner of a published application receives provisional rights to pursue a reasonable royalty for the period between the date of publication and the issue date of the patent. To be entitled to the reasonable royalty, the patentee must provide proper notice to the alleged infringer, and the claims as published must be “substantially identical” to the claims in the patent.
- Because of the publication deadline, all domestic and foreign priority benefit claims under 35 U.S.C. §§ 119, 120, 121, and 365 must be made within the later of four months from the filing date of an application, or sixteen months from the filing date of the priority application. Any priority claim not presented within this time period is considered to have been waived.

B. Patent Term Adjustment

- The term of a non-provisional utility application filed on or after May 29, 2000, extends twenty (20) years from the effective U.S. filing date, together with any patent term adjustment accrued during examination in the PTO.
- Patent term adjustment can be accrued for failure by the PTO to take certain actions within prescribed time limits (the so-called “14/4/4/4” limits), or to issue the patent within three years. Patent term adjustment can also be accrued for delays caused by secrecy orders, interference proceedings, and appeals.
- Patent term adjustment is offset, however, by failure on the part of applicants to engage in “reasonable efforts to conclude processing or examination of applications.”
- In order to reap the full benefits of patent term adjustment, applicants should:
 - ▶ Avoid extensions of time;
 - ▶ File preliminary amendments as soon as possible;
 - ▶ File a single, complete response to each PTO office action by express mail, facsimile, or hand delivery;
 - ▶ Avoid converting provisional applications to non-provisional applications; and
 - ▶ Use the Patent Application Information Retrieval (PAIR) system to monitor the PTO’s calculation of patent term adjustment.

C. Request for Continued Examination (RCE)

- The RCE procedure is intended to replace the Continued Prosecution Application (CPA) procedure. For all applications filed after May 29, 2000, only an RCE may be filed. CPA practice is now limited to utility applications filed before May 29, 2000.

- The RCE procedure is analogous to the CPA procedure in that both provide some form of continued examination. The fee for filing a CPA is the basic filing fee, plus any applicable excess claims fees (even if previously paid in the prior application). The fee for filing an RCE is the basic filing fee alone, with no excess claims fees for claims previously paid for.
- The RCE has the following advantages when compared with a CPA:
 - ▶ An RCE is not considered a new application, and does not result in publication of the application unless requested by the applicant;
 - ▶ An RCE does not abandon the pending application;
 - ▶ Small entity status automatically carries over; and
 - ▶ An RCE is entitled to the benefit of a Certificate of Mailing under 37 C.F.R. § 1.8.
- The RCE has the following disadvantages when compared with a CPA:
 - ▶ The filing fee must be paid at the time of filing of the RCE and cannot be deferred;
 - ▶ Applicants cannot “switch” inventions (divisional equivalent) as a matter of right; and
 - ▶ An RCE is not entitled to all the patent term adjustment provisions of the AIPA.

D. Inter-Partes Reexamination

- A new *inter-partes* reexamination procedure is now available that allows for third-party requesters to participate throughout the reexamination procedure. However, the appeal rights of the requester and the patentee differ.
- As detailed in the following sections, there are significant estoppels that arise from the conduct of the *inter-partes* reexamination.
- The prior *ex-parte* reexamination proceeding remains available for patentees and third-party requesters. The cost for the *inter-partes* proceeding is significantly greater than for an *ex-parte* reexamination (\$8,800 as opposed to \$2,520 for the *ex-parte* reexamination).

The AIPA and the PTO implementing regulations are described in greater detail in the sections that follow. We would be happy to discuss any of these changes with you in more detail, or come to your offices and give a training session on one or more of the topics.

II. The AIPA

A. Overview of the Statute

The AIPA was enacted on November 29, 1999, as part of Public Law 106-113. The AIPA includes eight subtitles, A through H. The PTO web site at www.uspto.gov includes a section devoted to the AIPA. A complete copy of the legislation is available on the PTO web site.

B. Subtitle A: Inventor's Rights Act of 1999

This portion of the act tasks the PTO with making publicly available all complaints involving invention promoters, and any reply of the invention promoter. "Invention promoter" is defined in the statute as any entity "who offers to perform or performs invention promotion services for, or on behalf of, a customer, and who holds itself out through advertising in any mass media as providing such services." "Invention promotion services" are defined as the procurement or attempted procurement for a customer to develop and market products or services that include the invention of the customer. Specifically excluded from the scope of "invention promoter" are government entities, certain charitable organizations, and certain acts of others directed to traditional sales of intellectual property. Notably, there is not a statutory exception for registered patent practitioners.

C. Subtitle B: Patent and Trademark Fee Fairness Act of 1999

In recognition that patent fee income of the PTO was offsetting a portion of the costs of the trademark operation, Subtitle B provides a decrease in patent filing fees and the first patent maintenance fee, in order to provide a proper allocation of costs between the patent and trademark operations in the PTO. The statute also provides that the PTO could raise certain trademark fees to offset the decrease in revenues due to the lowered patent fees. The PTO raised trademark fees effective January 10, 2000.

D. Subtitle C: First Inventor Defense Act of 1999

This subtitle provides an affirmative defense, to charges of patent infringement, for prior users of methods of doing or conducting business. To be entitled to the defense, an accused infringer must establish, by clear and convincing evidence, a good faith reduction to practice of the patented business method at least one year before the effective filing date of the patent, and commercial use of the method before the effective filing date. The defense extends only to those claims for which the reduction to practice and commercial use can be established; it is not a general license under all claims of the patent. Moreover, the defense does not affect the validity of the claims in the patent. Notably, if the defense is unsuccessful, and the court finds no reasonable basis for asserting the defense, the statute provides that the court "shall" find the case exceptional for purposes of awarding attorney fees.

The defense applies to a "method" of doing or conducting business. However, the legislative history refers to a broad interpretation of method, with the defense being applicable to claims

involving machines or articles of manufacture used to practice such methods (*i.e.*, apparatus claims that protect software).¹

The first inventor defense does not require any change to practice and procedure in the PTO, and no rulemakings have been promulgated to implement or interpret the statutory provisions establishing the defense. Moreover, the PTO has not provided any guidance on what infringement actions are subject to the defense, nor what evidence must be shown by an alleged infringer in order to successfully assert the defense. These issues presumably will be determined by the courts.

E. Subtitle D: Patent Term Guarantee Act of 1999

This subtitle of the AIPA provides for two of the changes discussed in the Executive Summary: patent term adjustment for patents issuing from utility and plant applications filed on or after May 29, 2000; and continued examination (RCE) of utility and plant applications. Notably, the filing of an RCE cuts off any entitlement to patent term adjustment based upon the failure of the PTO to issue the patent within three years from the actual filing date.

The statute provides three bases for patent term adjustment: (i) the PTO fails to take certain actions within specified time frames; (ii) the PTO fails to issue a patent within three years of the U.S. filing date; and (iii) delays due to an interference proceeding, secrecy order, or successful appellate review. There is no “double counting” of overlapping delays, and there can be no adjustment beyond any date specified in a terminal disclaimer.

1. PTO Failure to Act Within 14/4/4/4 Time Frames

An applicant is entitled to a day-for-day increase in patent term if the PTO fails to do any of the following during prosecution of the application:

- Issue the first office action within fourteen (14) months of the filing date;
- Act on a reply or an appeal within four (4) months of filing the reply or the appeal;

¹ “As used in this legislation, the term ‘method’ is intended to be construed broadly. . . . It includes a practice, process, activity, or system that is used in the design, formulations, testing, or manufacture of any product or service. The defense will be applicable against method claims, as well as the claims involving machines or articles the manufacturer used to practice such methods (*i.e.*, apparatus claims). . . . The first inventor defense is intended to protect both method claims and apparatus claims.” Cong. Rec. 11/18/99, P. H12805; “The issue of whether an invention is a method is to be determined based on its underlying nature and not on the technicality of the form of the claims in the patent. For example, a method for doing or conducting business that has been claimed in a patent as a programmed machine, as in the *State Street* case, is a method for purposes of section 273 if the invention could have as easily been claimed as a method. Form should not rule substance.” Cong. Rec. 11/17/99, P. S14717.

- Act on an application within four (4) months after a Board of Patent Appeals and Interferences (BPAI) or court decision; and
- Issue the patent within four (4) months of the date the issue fee was paid.

2. PTO Failure to Issue Patent Within 3 Years

An applicant is entitled to a day-for-day increase in patent term if the PTO fails to issue the patent within three years from the actual filing date of the application. The following periods are not counted against the three years:

- Time consumed by continued examination under the RCE procedure;
- Time consumed by secrecy order, interference, or appellate review; and
- Time consumed by applicant-requested delays.

3. Delay Due to PTO Proceedings

An applicant is entitled to a day-for-day increase in patent term for each day of the pendency of an interference proceeding (35 U.S.C. § 135 (a)), a secrecy order (35 U.S.C. § 181), or a successful appellate review in which the patent was issued under a decision reversing an adverse determination of patentability.

The PTA accrued under the three bases of adjustment are offset, however, by failure on the part of applicants to “engage in reasonable efforts to conclude processing or examination of applications.” The time period of such unreasonable prosecution delays are subtracted from the total PTA accrued under the three bases. However, PTA may not be negative.

According to Subtitle D (emphasis added):

[A]n applicant shall be deemed to have failed to engage in reasonable efforts to conclude processing or examination of an application for *the cumulative total of any periods in excess of 3 months that are taken to respond to a notice from the Office* making any rejection, objection, argument, or other request, measuring such 3-month period from the date the notice was given or mailed to the applicant.

The statute also tasks the PTO with prescribing regulations establishing circumstances that constitute failure to engage in reasonable efforts to conclude processing or examination. As discussed in Section III.A., the guidelines issued by the PTO include numerous examples of such circumstances and actions by applicants.

F. Subtitle E: Domestic Publication of Foreign Filed Patent Applications Act of 1999

The eighteen-month or “pre-grant” publication provisions of Subtitle E apply to non-provisional utility applications filed on or after November 29, 2000. Applications will be published approximately eighteen (18) months from the earliest filing date claimed, under either foreign or domestic priority. An applicant can request publication of an application pending on November 29, 2000 (“voluntary publication”), or publication earlier than the 18-month deadline (“early publication”). All new, continuing (including CPA requests), and national stage utility applications are subject to publication. However, the RCE procedure will not trigger publication. Abandoned, provisional, and design applications, as well as applications under secrecy order, are not subject to publication.

To avoid publication, an applicant may file a “non-publication request.” Such a non-publication request **must** be filed along with the application. The non-publication request must certify that the accompanying application **has not been and will not be** the subject of an application filed in another country (or under international agreement such as the Patent Cooperation Treaty or “PCT”) that requires 18-month publication. The non-publication request can be rescinded by the applicant at any time. However, if a non-publication request is in effect and the application is subsequently filed in another country or under the PCT, the applicant must notify the PTO within forty-five days of such filing or the U.S. application will be automatically abandoned.

The statute tasks the PTO with establishing appropriate procedures to ensure that no protest or other form of pre-issuance opposition to the grant of a patent on an application may be initiated after publication of the application, without the express written consent of the applicant. The regulations of the PTO are described in Section III.B of this memo.

G. Subtitle F: Optional Inter Partes Reexamination Procedure Act of 1999

This subtitle of the AIPA provides for expanded participation of a third party throughout the reexamination proceedings through a final decision of the Board of Patent Appeals and Interferences as an alternative option to *ex parte* reexamination. The third party, however, does not have a right to participate in any appeal to the Court of Appeals for the Federal Circuit. The third-party requester can appeal to the BPAI, and can participate in an appeal to the BPAI taken by the patent owner. The patent owner can appeal to the BPAI, and appeal the Board’s decision to the Federal Circuit. The third-party requester can only participate in the BPAI appeal.

A third-party requester in an *inter partes* reexamination is estopped from asserting at a later time, in any civil action, the invalidity of any claim finally determined to be valid and patentable on any ground which the third-party requester raised, **or could have raised**, during the *inter partes* reexamination proceeding. Moreover, any party who requests an *inter partes* reexamination is estopped from challenging in a subsequent civil action any fact determined during the process of such reexamination. However, this does not include challenges to a fact determination later proved to be erroneous based on information not available at the time of the *inter partes* reexamination decision. If a final decision in an *inter partes* reexamination proceeding instituted by a third-party requester is favorable to the patentability of any original or proposed amended or new claim of the patent, then neither the third-party requester nor its privies may thereafter

request an *inter partes* reexamination of any such patent claim on the basis of issues that the third-party requester or its privies raised *or could have raised* in the reexamination proceeding.

While the provisions of Subtitle F were effective as of November 29, 1999, they apply only to patents that issue from applications filed on or after November 29, 1999. The final rules to implement the *inter partes* reexamination proceeding were issued by the PTO on December 7, 2000, and have an effective date of February 5, 2001.

H. Subtitle G: Patent and Trademark Office Efficiency Act

This subtitle deals with the organization of the PTO and its officers. The head of the PTO is designated as an Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office. This subtitle also establishes a Public Advisory Committee for patents, and one for trademarks. The advisory committees are tasked to review the policies, goals, performance, budget, and user fees of the PTO, and advise the Director on these matters in an annual report. The first annual report of the Patent Public Advisory Committee (“P-PAC”) was published in the PTO Official Gazette on December 26, 2000 (1241 O.G. 98). The report emphasizes the dramatic increase in patent application filings, coupled with diversion by Congress of user fees. The resulting budget shortfall is noted as one of the P-PAC priorities.

I. Subtitle H: Miscellaneous Patent Provisions

This subtitle provides authority for the conversion of a provisional application to a non-provisional application, even if the provisional application does not include a claim. A request to convert the provisional application to a non-provisional application must be filed during the twelve-month pendency of the provisional application. The PTO will set a time period within which a claim must be submitted for the PTO to grant the request to convert. Upon conversion, the non-provisional application will have the same filing date as the provisional application. Thus, the twenty-year term will begin to run from the date the provisional application was filed.

A better strategy that preserves patent term is to file a non-provisional application that claims priority to the provisional application. To facilitate timely filing of a non-provisional application, Subtitle H provides that if the twelve-month pendency period of the provisional application ends on a non-business day, the period is extended to the next business day. Subtitle H also eliminates the copendency requirement between a provisional application and a non-provisional application in order to claim the benefit of priority of the provisional application.

Subtitle H also provides for the exclusion of commonly owned or assigned patents used in obviousness rejections applied against the later invention if the patent is available as prior art only under 35 U.S.C. § 102 (e). Particularly, 35 U.S.C. § 103 (c) was amended to refer to “one or more of subsections (e), (f), and (g).”

III. The Implementing Regulations

A. Changes to Implement Patent Term Adjustment Under Twenty-Year Patent Term. Final Rule: 65 Fed. Reg. 56366, September 18, 2000

The final rule adds new sections 1.702 through 1.705 to the PTO's regulations in Title 37 of the Code of Federal Regulations. Under § 1.705, the Notice of Allowance will include the notification of any patent term adjustment to which the patent will be entitled. The notification will indicate only the number of days, and will not include any details of the calculation. The comments to the final rules indicate that the PTO plans to provide information regarding the PTA calculation through the Patent Application Information Retrieval (PAIR) system at <http://pair.uspto.gov>. New § 1.705 also sets forth the procedures for requesting reconsideration of the PTA determination, and for reinstatement of all or part of any term reduction.

As noted in § 1.704(b), an applicant is deemed to have failed to engage in reasonable efforts to conduct prosecution for the cumulative total of any periods of time in excess of three months to reply to any notice or action from the PTO. Notably, the AIPA applies this "three-month reply rule" for applicants to specifically offset only the failure of the PTO to issue a patent within three years. The final rule as set forth in § 1.704(b) applies the "three-month reply rule" for applicants to offset all bases for patent term adjustment.

New § 1.704 sets forth the circumstances for which there shall be a reduction in PTA due to failure of an applicant to engage in reasonable efforts to conclude prosecution (processing or examination) of the application. The comments to the final rules specifically note, however, that the actions or inactions set forth in § 1.704(c) are exemplary circumstances, and that the PTO may also reduce PTA under its statutory authority for other conduct that interferes with the PTO's ability to process or examine applications, even if such conduct is not specifically addressed in the regulation. The circumstances delineated in § 1.704 include the following:

- Suspension of action;
- Deferral of issuance of a patent;
- Abandonment of the application or late payment of the issue fee;
- Failure to file a petition to withdraw the holding of abandonment or to revive an application within two months from the mailing date of a notice of abandonment;
- Conversion of a provisional application to a non-provisional application;
- Submission of a preliminary amendment or other preliminary paper less than one month before the mailing of an office action or a notice of allowance;
- Submission of a reply having an omission;
- Submission of a supplemental reply or other paper, other than one expressly requested by the examiner;

- Submission of an amendment or other paper after a decision by the BPAI less than one month before the mailing of an office action or notice of allowance that requires a supplemental office action or supplemental notice of allowance;
- Submission of an amendment or other paper after a notice of allowance has been given or mailed; and
- Further prosecution via a continuing application.

**B. Changes to Implement Eighteen-Month Publication of Patent Applications.
Final Rule: 65 Fed. Reg. 57024, September 20, 2000**

In order to publish applications by the eighteen-month deadline, the PTO is requiring that applications be in condition for publication at the time they are released from the Office of Initial Patent Examination to the technology centers for examination. As such, applicants will be required to provide the following before examination can begin:

- Specification of sufficient quality for optical character recognition conversion of image to text;
- Title and abstract in compliance with 37 C.F.R. § 1.72;
- Drawings of sufficient quality to readily use the patent application publication as a prior art document; and
- Sequence listings in compliance with 37 C.F.R. § 1.821 *et seq.*

The eighteen-month publication deadline is measured from the earliest claimed priority date. As authorized by Subtitle E of the AIPA, the PTO has amended Sections 1.55 and 1.78 of its rules to require that all domestic and foreign priority benefit claims under 35 U.S.C. §§ 119, 120, 121, and 365 be made *within the later of four months from the filing date of an application, or sixteen (16) months from the filing date of the priority application*. Any priority claim not presented within this time period is considered to have been waived. However, the rules do provide for acceptance of “unintentionally delayed” claims for priority or benefit of a prior application’s filing date upon filing of an appropriate petition.

A new § 1.99 has been added to the PTO’s rules that governs third-party submissions of prior art in published applications. The new section permits patents and printed publications to be submitted by third parties, but does not allow any activity that amounts to a protest or opposition by the third party. No more than ten documents can be submitted, and no discussion of the references or the claimed invention is permitted. A submission must be filed within two months from the date of publication of the application, or prior to the mailing of a notice of allowance, whichever is earlier, and must be served on the applicant.

**C. Rules to Implement Optional *Inter Partes* Reexamination Proceedings.
Final Rule: 65 Fed. Reg. 76756, December 7, 2000**

The final rule for implementing the optional *inter partes* reexamination has an effective date of February 5, 2001. The final rule adds a new Subpart H to the patent rules (37 C.F.R. §§ 1.902-1.997) entitled “*Inter Partes* Reexamination of Patents.” The time period for filing an *inter partes* reexamination request is limited to the period of enforceability of the patent for which the request is filed. Under § 1.919, the date on which the entire fee for the *inter partes* reexamination request is received will be considered as the filing date for the reexamination request.

Under § 1.913, any person, other than the patent owner or people or entities in privity with the owner, may file an *inter partes* reexamination request for any claim on the basis of prior art patents or printed publications, as in *ex parte* reexamination. Notices of filing *inter partes* reexamination requests will be published in the PTO Official Gazette, and such notice is considered to be constructive notice to the patent owner. The patent owner and the third-party requester must be sent copies of all office actions. Additionally, the patent owner and third-party requester must serve copies of all papers on all other parties in the *inter partes* reexamination proceeding, or they may be refused consideration by the PTO.

The circumstances under which an *inter partes* reexamination request is prohibited is set out in § 1.907. Once an order for *inter partes* reexamination has been issued, neither the third-party requester, nor any person or entity in privity with the requester, may file a subsequent request for an *inter partes* reexamination of the patent until an *inter partes* reexamination certificate is issued, unless authorized by the Director of the PTO. In addition, a party that failed to prove in a civil action that a patent claim is invalid is precluded from requesting an *inter partes* reexamination based on issues the party raised, or could have raised, in the civil action. Finally, an *inter partes* reexamination decision favorable to patentability will preclude a later *inter partes* reexamination request for the patent based on issues that were or could have been raised.

D. Request for Continued Examination Practice and Changes to Provisional Application Practice. Final Rule: 65 Fed. Reg. 50092, August 16, 2000

This final rule adds new § 1.114, entitled “Request for continued examination” to the PTO’s rules. The new section sets forth the requirements for filing an RCE, which include a “submission” and a fee. A “submission” includes, but is not limited to, an information disclosure statement, an amendment to the written description, claims, or drawings, new arguments, or new evidence in support of patentability. Notably, if a reply to an office action is outstanding, the submission *must* meet the reply requirements.

This final rule also amends 37 C.F.R. § 1.53 (c) to set forth the procedure for converting a provisional application to a non-provisional application. The rule states that conversion of a provisional application to a non-provisional application will result in the term of any patent to issue from the application being measured from at least the filing date of the provisional application for which conversion is requested. The rule advises applicants that this adverse patent term impact can be avoided by filing a non-provisional application claiming the benefit of the provisional application under 35 U.S.C. § 119 (e), rather than converting the provisional to a non-provisional application.

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For more information about any of these matters, contact Andrea G. Reister (202.662.5141) or Paul J. Berman (202.662.5468).

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