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America Invents Act: Top Five Changes Government Contractors Need to Know

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The Leahy-Smith America Invents Act (AIA) represents an important restructuring of U.S. patent law and affects many industries, including Government Contracting. Anyone using government funds to develop new technology should be aware of the revised deadlines and different incentives described above in order to navigate these new legal waters successfully.

The AIA celebrated its one-year anniversary on September 16, 2012. As we look towards March 16, 2013, when some of the AIA's biggest changes will take effect, here are the top five changes recipients of federal funds need to know:

1. After March 16, 2013, on-sale and public use activities anywhere in the world will shorten the deadline to elect to retain title to an invention under the Bayh-Dole Act.

Under the Bayh-Dole Act, a nonprofit organization or small business firm may elect to retain title to an invention the contractor conceived or reduced to practice in the performance of work under a funding agreement with the federal government.¹ To retain title, the contractor must disclose each subject invention to the federal agency and make a written election to retain title within 2 years after disclosure. If the invention was patented or described in a printed publication anywhere in the world, or in public use or on sale in the United States, however, such conditions will trigger a 1-year statutory period. The federal agency may shorten the deadline for a written election to 60 days prior to the end of the 1-year statutory period. Furthermore, a contractor who elects to retain title must agree to file a patent application prior to the end of that 1-year statutory period.

Section 3 of the AIA amends §202(c) of the Bayh-Dole Act to conform it to the 35 U.S.C. §102(a)-(b). After March 16, 2013, on-sale or public use activities anywhere in the world—not just the United States—will trigger the 1-year statutory bar to patenting an invention. Section 3(g)(7)(A) of the AIA provides that the federal agency may shorten the deadline for a written election to sixty days before the end of the 1-year period in the revised §102(b). Similarly, a contractor electing to retain title must agree to file a patent application prior to the end of the 1-year period.

2. After March 16, 2013, the new “first-to-file” system will create incentives to file patent applications earlier.

The AIA creates a “first-to-file” system that will also take effect for patents filed on or after March 16, 2013. Currently, prior art under 35 U.S.C. §102(a) is defined by the date of invention, and an inventor can “swear behind” prior art references by showing that the inventor conceived the invention at an earlier date.² Section 3(b) of the AIA revises

¹ See 35 U.S.C. § 202 (2006); Bart A. Gerstenblith & Scott J. Popma, *Bayh-Dole: statute, regulation and implications for government contractors*, 7 J. INTELL. PROP. L. & PRAC. 497-509 (2012).

² See Bart A. Gerstenblith & Scott J. Popma, *Complying with the America Invent Act's revisions to the Bayh-Dole Act*, 17 FEDERAL CIRCUIT BAR ASSOCIATION BENCH & BAR NEWSLETTER, No. 2, March 2012, at 1-11.

Client Alert.

§102(a) so that the critical date for prior art will be the effective filing date of the claimed invention. Inventors will no longer be able to “swear behind” references. Though contractors may have a 1-year statutory period after on sale and public use activities to file their patent applications, the new system will create incentives to file earlier than that deadline.

3. The expanded “prior commercial use” defense does not apply to inventions that were owned by or assigned to a university at the time the invention was made, unless government funds could not have been used in the invention’s reduction to practice.

Section 5 of the AIA amended 35 U.S.C. §273 to expand the application of the prior commercial use defense to subject matter beyond business methods. For patents that were issued on or after September 16, 2011, a person can raise the defense of prior commercial use in the United States of subject matter that would otherwise infringe the claimed invention. The commercial use must occur at least one year before either the invention’s effective filing date or the date of its disclosure within the §102(b) exception.

The AIA also added a “university exception” at §273(e)(5). Under this exception, a person cannot assert a prior commercial use defense against patents that were owned by or assigned to universities or university technology transfer organizations “at the time the invention was made.” The language of §273(e)(5) does not impose any limitation on when or to whom a university may sell its patents—this “university exception” will likely protect patent trolls that purchase those patent rights.³

Subparagraph (B) of the §273(e)(5) provides an exception to the “university exception.” If the claimed invention could not have been reduced to practice with federal funds, a party can still raise a prior commercial use defense. From the legislative history of the AIA, this subparagraph was intended to apply to subject matter where “the federal government is affirmatively prohibited, whether by statute, regulation, or executive order, from funding research in the activities in question.”⁴ For example, the controversy over federal funding of human embryonic stem cell research could implicate the §273(e)(5)(B) exception.

4. Non-profit organizations in government-owned-contractor-operated facilities can keep a higher share of royalties and income earned from inventions subject to the Bayh-Dole Act.

Section 13 of the AIA amended §202 of the Bayh-Dole Act to allow non-profit organizations that operated government-owned facilities to keep a higher share of royalties and income from subject inventions. Under 35 U.S.C. § 202(c)(7)(E), this share of royalties is calculated from a balance adjusted for expenses like patenting costs and in excess of five percent of the facility’s annual budget. Of the excess, the contractor pays 15 percent to the Treasury and uses 85 percent for scientific research, development, and education. The AIA has increased the non-profit organization’s share to the current 85 percent from the original 25 percent.

5. Non-profit organizations should give a preference to small business firms in licensing inventions under the Bayh-Dole Act.

Section 20 of the AIA amended the Bayh-Dole Act’s requirement in 35 U.S.C. §202(c)(7)(D) that non-profit

³ See Joe Matal, *A Guide to the Legislative History of the America Invents Act, Part II of II*, 21 FED. CIR. B.J. 539, 579 (2012).

⁴ See *id.*, quoting 157 CONG. REC. S5431 (daily ed. Sept. 8, 2011) (statement of Sen. Kyl).

Client Alert.

organizations license subject inventions to small business firms, except where “infeasible after a reasonable inquiry.” Under new language that took effect on September 16, 2012, non-profit organizations are not required to license to small business firms, but should give a preference to them.

For more information on the AIA and its far-reaching impact, we invite you to visit Morrison & Foerster’s Resource Center at <http://www.mofo.com/patent-reform/>.

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