

New Law Creates a Patent Infringement Defense and Restructures the Patent and Trademark Office

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On November 29, 1999, President Clinton signed a bill containing the American Inventors Protection Act of 1999.^[1] The Act makes a variety of long-awaited changes to current patent laws. In addition to reorganizing the Patent and Trademark Office,^[2] the Act creates a legal claim against fraudulent invention promoters;^[3] lowers various patent and trademark registration fees;^[4] establishes a defense against patent infringement actions;^[5] extends patent terms to remedy delays in the patent registration process;^[6] outlines the domestic publication of patent applications;^[7] and creates an *inter partes* patent reexamination procedure.^[8]

Within the American Inventors Protection Act, the Inventors' Rights Act imposes upon invention promoters a duty to disclose: (1) how many inventions they evaluated in the past five years; (2) how many customers contracted with them in the past five years; (3) how many customers "received net financial profits" or license agreements as a result of the invention promoter's services; and (4) "the names and addresses of all previous invention promotion companies with which the promoter [was] affiliated in the past ten years."^[9] If the invention promoter makes a fraudulent representation, a material omission of fact, or violates his or her duty to disclose, an injured customer can bring a civil action to recover actual damages, reasonable costs, and attorneys' fees.^[10] Alternatively, the injured customer can elect to recover statutory damages of up to \$5,000 any time before final judgment in lieu of actual damages.^[11] In cases of intentional misconduct by the invention promoter, the Act provides for treble damages.^[12]

The Patent and Trademark Fee Fairness Act of 1999 reduces PTO patent fees by approximately ten percent.^[13] It also provides for a study of alternative fee structures aimed at maximizing inventor participation.^[14]

The First Inventor Defense Act of 1999 creates a legal defense against a patent infringement action.^[15] This defense was created primarily to deal with the uncertainty created by a recent federal court decision enforcing a "business method" patent.^[16] The defense generally requires defendants to demonstrate that, acting in good faith, they "reduced the [invention] to practice at least one year before the effective filing date of [the] patent, and commercially used the [invention] before the effective filing date of [the] patent."^[17] The use of this defense is solely confined to infringement actions involving patented business methods.^[18]

The Patent Term Guarantee Act of 1999 extends a patent's term to the extent that processing delays effectively shortened the term.^[19] In other words, the patent term of an invention is extended by one day for each day the PTO failed to meet statutory deadlines, and for each day the patent application was delayed due to interferences, secrecy orders, or appeals.^[20] Interestingly, the new law guarantees no more than a three-year application process, with each

day over the three-year deadline being added to the granted patent term.^[21] The applicant, however, must “engage in reasonable efforts to conclude the prosecution of the application[.]” or else the patent term extension may be shortened.^[22]

The Domestic Publication of Foreign Filed Patent Applications Act of 1999 describes the publication process of filed patent applications.^[23] Under these rules, the PTO will domestically publish a patent application eighteen months after the filing date.^[24] Once published, the applicant has a right to reasonable royalties from those who use, sell, or make the invention^[25] and the invention will be considered prior art for future patent application purposes.^[26] The patent applicant can avoid domestic publication of their application by “certifying that the invention . . . has not and will not be the subject of an application filed in another country . . . that requires publication of applications 18 months after filing”^[27]

The Optional Inter Partes Reexamination Procedure Act of 1999 establishes a new PTO reexamination proceeding with the participation of both the patent applicant and third-party initiators.^[28] The PTO's ex parte reexamination proceedings had been rarely used because the rules prohibited third-party initiators' participation.^[29] The inter partes reexamination proceedings may be commenced at the request of any third party.^[30] Once the request is filed, the Commissioner must determine that a “substantial new question of patentability affecting any claim of the patent” exists for the reexamination proceedings to continue.^[31] The standards for conducting these proceedings are similar to those used for conducting ex parte reexamination proceedings.^[32] The third-party requester, however, can participate by filing written comments to the PTO in response to an “action of the Office or the patent owner's response thereto”^[33] Importantly, the rules estop third-party requestors from bringing civil suits asserting the invalidity of patent claims that were already determined to be valid during the reexamination proceedings.^[34] Both the patent applicant and the third-party requester can appeal to the Board of Patent Appeals and Interferences and the Court of Appeals for the Federal Circuit (“CAFC”) for a determination made during the reexamination proceeding.^[35]

The Patent and Trademark Office Efficiency Act reorganizes the PTO and establishes it as a Department of Commerce agency.^[36] This reorganization was implemented to streamline PTO operations.^[37] The new PTO ultimately retains most of its independence; however, the Secretary of Commerce determines the PTO's policy directions.^[38] The presidentially-appointed head of the PTO is considered both the Under-Secretary of Commerce for Intellectual Property and the Director of the PTO.^[39] The Secretary of Commerce appoints the PTO's Deputy Director, Commissioner for Patents, and Commissioner for Trademarks, all of whom serve under the PTO's Director.^[40] In addition, the new law creates a Patent Public Advisory Committee and a Trademark Public Advisory Committee to advise the PTO with respect to its “policies, goals, performance, budget, and user fees.”^[41] Each committee is comprised of nine members, each of whom are appointed by the Secretary of Commerce to “represent interests of

diverse users . . . represent[ing] small and large entity applicants”^[42]
Congress intends the American Inventors Protection Act to encourage innovation by
reducing patent litigation and by creating a more efficient patent examination process.^[43] The
controversy surrounding business method patents, however, may be an obstacle to these goals.
^[44] In particular, the effects of the First Inventor Defense remain to be seen.^[45]

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^[1] American Inventors Protection Act of 1999, Pub. L. No. 106-113, 113 Stat. 1501 (1999) (to be codified as amended in scattered sections of 35 U.S.C.).

^[2] *See id.* §§ 4711-4720, 113 Stat. at 1501A-572 to -581 (to be codified in scattered sections of 35 U.S.C.).

^[3] *See id.* § 4102, 113 Stat. at 1505A-552 to -554 (to be codified at 35 U.S.C. § 297).

^[4] *See id.* §§ 4202-03, 113 Stat. at 1501A-554 to -555 (to be codified at 35 U.S.C. §§ 31(a), 41(a)-(b)).

^[5] *See id.* § 4301, 113 Stat. at 1501A-555 to -556 (to be codified at 35 U.S.C. § 273).

^[6] *See id.* § 4202, 113 Stat. at 1501A-557 to -560 (to be codified at 35 U.S.C. § 154(b)).

^[7] *See id.* § 4502-4506, 113 Stat. at 1501A-561 to -566 (to be codified in scattered sections of 35 U.S.C.).

^[8] *See id.* §§ 4602-4607, 113 Stat. at 1501A-567 to -571 (to be codified in scattered sections of 35 U.S.C.).

^[9] Inventors’ Rights Act, Pub. L. No. 106-113, § 4102, 113 Stat. 1501A-552, 1501A-552 to -554 (to be codified at 35 U.S.C. § 297). An “invention promoter” is “any person, firm, partnership, corporation, or other entity who offers to perform or performs invention promotion services for, or on behalf of, a customer” *Id.* § 4102, 113 Stat. at 1501A-553 (to be codified at 35 U.S.C. § 297(c)(3)). An invention promotion service is “the procurement or attempted procurement for a customer of a firm, corporation, or other entity to develop and market products or services that include the invention of a customer.” *Id.* § 4102, 113 Stat. at 1501A-554 (to be codified at 35 U.S.C. § 297(c)(4)).

^[10] *See id.* § 4102, 113 Stat. at 1501A-553 (to be codified at 35 U.S.C. § 297(b)(1)(A)).

^[11] *See id.* § 4102, 113 Stat. at 1501A-553 (to be codified at 35 U.S.C. § 297(b)(1)(B)).

^[12] *See id.* § 4102, 113 Stat. at 1501A-553 (to be codified at 35 U.S.C. § 297(b)(2)).

^[13] Patent and Trademark Fee Fairness Act of 1999, Pub. L. No. 106-113, § 4202, 113 Stat. 1501A-554, 1501A-554 (amending 35 U.S.C. § 41(a)(1)(A), (a)(4)(A), (a)(10), (b)(1)).

^[14] *See id.* § 4104, 113 Stat. at 1501A-555.

[15] First Inventor Defense Act of 1999, Pub. L. No. 106-113, § 4302, 113 Stat. 1501A-555, 1501A-555 to -557 (to be codified at 35 U.S.C. § 273).

[16] Under a long-standing judicially-created exception, a method of doing business, such as a novel bookkeeping method, was considered unpatentable. *See* *Hotel Sec. Checking Co. v. Lorraine Co.*, 160 F. 467, 469 (2d Cir. 1908). A recent watershed decision, however, upheld such a patent. *See* *State Street Bank & Trust Co. v. Signature Fin. Group, Inc.*, 149 F.3d 1368, 1377 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1093 (1999) (enforcing a patent for a method for processing mutual fund information). This decision, as well as recent e-commerce innovations, have created a great increase in applications to protect business methods such as "reverse auctioning" (Priceline) and "one-click shopping" (Amazon.com); the enforceability of these patents, however, remains uncertain. *See* Brenda Sandburg, *PTO Ups the Ante*, RECORDER, Mar. 30, 2000, *available in* LEXIS Legal Publications Group File (noting that U.S. Patent and Trademark Office plans to "improve the quality of examination of business method patents."). The PTO received 2,600 applications in 1999, compared to 1,300 in 1998. *See id.*

[17] American Inventors Protection Act of 1999, Pub. L. No. 106-113, § 4302, 113 Stat. 1501, 1501A-556 (to be codified at 35 U.S.C. § 273(b)(1)). "Commercial use" is:

use of a method in the United States, so long as such use is in connection with an internal commercial use or an actual arm's length sale or other arm's length commercial transfer of a useful end result, whether or not the subject matter at issue is accessible to or otherwise known to the public

Id. § 4302, 113 Stat. 1501, 1501A-555 (to be codified at 35 U.S.C. § 273(a)(1)).

[18] *See id.* § 4302, 113 Stat. at 1501A-556 (to be codified at 35 U.S.C. § 273(b)(3)(A)).

[19] Patent Term Guarantee Act of 1999, Pub. L. No. 106-113, § 4402, 113 Stat. 1501A-557, 1501A-557 to -559 (to be codified at 35 U.S.C. § 154(b)(1)).

[20] *See id.* § 4402, 113 Stat. at 1501A-557 to -559 (to be codified at 35 U.S.C. § 154(b)(1)(A), (C)).

[21] *See id.* § 4402, 113 Stat. at 1501A-558 (to be codified at 35 U.S.C. § 154(b)(1)(B)).

[22] *Id.* § 4402, 113 Stat. at 1501A-559 (to be codified at 35 U.S.C. § 154(b)(2)(C)(i)).

[23] Domestic Publication of Foreign Filed Patent Applications Act of 1999, Pub. L. No. 106-113, §§ 4502-4506, 113 Stat. 1501A-561, 1501A-561 (to be codified at scattered sections of 35 U.S.C.).

[24] *See id.* § 4502, 113 Stat. at 1501A-561 (to be codified at 35 U.S.C. § 122(b)(1)(A)).

[25] *See id.* § 4504, 113 Stat. at 1501A-564 (to be codified at 35 U.S.C. § 154(d)(1)).

[26] *See id.* § 4505, 113 Stat. at 1501A-565 (to be codified at 35 U.S.C. § 102(e)(1)).

[27] *Id.* § 4502, 113 Stat. at 1501A-561 (to be codified at 35 U.S.C. § 154(b)(2)(B)(i)).

[28] Optional Inter Partes Reexamination Procedure Act of 1999, Pub. L. No. 106-113, §§ 4602-07, 113 Stat. 1501A-567, 1501A-567 to -571 (to be codified at scattered sections of 35 U.S.C.).

[29] *See IP Subcommittee Chairman Coble Explains Recent Changes To Patent Reform Bill*, 58 Pat., Trademark & Copyright J. (BNA), No. 1438, at 486 (Aug. 19, 1999) [hereinafter *IP Subcommittee*].

[30] *See* American Inventors Protection Act of 1999, Pub. L. No. 106-113, § 4604, 113 Stat. 1501, 1501A-567 (to be codified at 35 U.S.C. § 311(a)).

[31] *Id.* § 4604, 113 Stat. at 1501A-568 (to be codified at 35 U.S.C. § 312(a)).

[32] *See id.* § 4604, 113 Stat. at 1501A-568 (to be codified at 35 U.S.C. § 314(a)).

[33] *Id.* § 4604, 113 Stat. at 1501A-568 to -569 (to be codified at 35 U.S.C. § 314(b)(3)).

[34] *See id.* § 4604, 113 Stat. at 1501A-569 (to be codified at 35 U.S.C. § 315(c)). The estoppel is limited to issues the third party “raised or could have raised” during the proceedings. *Id.* In addition, this estoppel prevents third party requestors from challenging fact determinations in a civil suit; the third party can, however, challenge the Commissioner’s findings by presenting new information that was unavailable at the time of the reexamination proceedings. *See id.* § 4607, 113 Stat. at 1501A-571.

[35] *See id.* § 4604, 113 Stat. at 1501A-569 (to be codified at 35 U.S.C. § 315(a), (b)).

[36] Patent and Trademark Office Efficiency Act, Pub. L. No. 106-113, §§ 4711-4719, 113 Stat. 1501A-572, 1501A-572 to -581 (to be codified in scattered sections of 35 U.S.C.).

[37] *See* H. REP. NO. 106-287, at 30 (1999).

[38] *See id.* at 60-61.

[39] *See* American Inventors Protection Act of 1999, Pub. L. No. 106-113, § 4713, 113 Stat. 1501, 1501A-575 (to be codified at 35 U.S.C. § 3(a)(1)).

[40] *See id.* § 4713, 113 Stat. at 1501A-576 (to be codified at 35 U.S.C. § 3(b)(1), (2)(A)).

[41] *Id.* § 4714, 113 Stat. at 1501A-578 to -579 (to be codified 35 U.S.C. § 5(a)(1), (d)(1)).

[42] *See id.* § 4714, 133 Stat. at 1501A-579 (to be codified at 35 U.S.C. § 5(b)(1)-(2)).

[43] *See* H. REP. NO. 106-287, at 30 (1999).

[44] *See* Sandburg, *supra* note 16.

[45] *See IP Subcommittee, supra* note 29, at 486.