Client Alert

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Government Contracts & Disputes

Intellectual Property

America Invents Act

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How the America Invents Act Impacts Inventions Made with Government Funds

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On September 16, 2011, President Obama signed into law the Leahy-Smith America Invents Act, H.R. 1249 (the "AIA"), a landmark patent-reform bill with far-reaching effects on U.S. patent law. The AIA's provisions take effect at various times, ranging from the date of enactment to 18 months thereafter. This advisory addresses three provisions of the AIA of which government contractors and others using government funds to invent should be mindful.

The three AIA provisions addressed below relate to the following:

- The patent-infringement defense based on prior commercial use
- The ability to retain greater royalties from subject inventions by nonprofit operators of government-owned facilities
- The timeliness of electing to retain title to subject inventions

The "University Exception" to the Patent-Infringement Defense of Prior Commercial Use[1]

In general, AIA § 5 expands the scope of the prior-commercial-use defense to patent infringement under 35 U.S.C. 273. Instead of being restricted only to subject matter that infringes business-method patents, the § 273 defense is now applicable to "subject matter consisting of a process, or consisting of a machine, manufacturer, or composition of matter used in a manufacturing or other commercial process that would otherwise infringe a claimed invention."[2]

But the AIA also adds a "University Exception" to § 273, whereby the defense may not be asserted if the claimed invention, at the time it was "made," was owned by or subject to an assignment obligation to a university or a technology transfer organization whose primary purpose is to facilitate the commercialization of university-developed technologies.[3]

[1] AIA § 5 applies to any patent issued on or after September 16, 2011.

[2] *See* 35 U.S.C. 273(a).

[3] *See* 35 U.S.C. 273(e)(5)(A).

However, this "University Exception" will not apply in one situation: when government funds *could not have been used* to undertake the activities required to reduce the subject matter of the claimed invention to practice.[4] Therefore, a defendant in a patent-litigation suit who otherwise qualifies for the § 273 defense may assert it, e.g., if the asserted patent's invention – although made while owned by or subject to an assignment obligation to a university – was not reduced to practice using government funds.

The University Exception and its "no government funds" carve-out of amended 35 U.S.C. 273(e)(5) state as follows:

> **(5) UNIVERSITY EXCEPTION.—**
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> (A) IN GENERAL.—A person commercially using subject matter to which subsection (a) applies may not assert a defense under this section if the claimed invention with respect to which the defense is asserted was, at the time the invention was made, owned or subject to an obligation of assignment to either an institution of higher education (as defined in section 101(a) of the Higher Education Act of 1965 (20 U.S.C. 1001(a)), or a technology transfer organization whose primary purpose is to facilitate the commercialization of technologies developed by one or more such institutions of higher education.
>
> (B) EXCEPTION.—Subparagraph (A) shall not apply if any of the activities required to reduce to practice the subject matter of the claimed invention could not have been undertaken using funds provided by the Federal Government.

Bayh-Dole Act Amendment 1 – Certain Government Contractors to Retain More Royalties from Subject Inventions[5]

AIA § 13 amends 35 U.S.C. 202(c)(7)(E) to allow a nonprofit operator of a government-owned-contractor-operated facility to retain a greater share of the licensing royalties and other income earned from subject inventions.[6] Specifically, after payment of patenting costs, licensing costs, payments to inventors, and other expenses incidental to the administration of subject inventions, such nonprofit operators can now retain 85% of subject-invention royalties and other earned income that exceed 5% of the facility's annual budget. Formerly, only 25% of such excess could be retained by the contractor, with the balance paid to the U.S. Treasury.

Bayh-Dole Act Amendment 2 – Conforming the Bayh-Dole Act with Other Statutes Amended by the AIA[7]

AIA § 3(g)(7) harmonizes 35 U.S.C. 202(c)(2)-(3) with another AIA amendment to U.S. patent law: the revised 1-year period under 35 U.S.C. 102(b) for inventors to file patent applications after the claimed subject matter was publicly disclosed by them (or by others who obtained the subject matter from them) to prevent the disclosure from being prior art.[8]

As before, if the 1-year period under § 102(b) is applicable, a contractor (1) may have its deadline to elect to retain title to a subject invention shortened to a date not more than 60 days before the end of the 1-year

[4] *See* 35 U.S.C. 273(e)(5)(B).

[5] AIA § 13 took effect on September 16, 2011 and applies to any patent issued before, on, or after that date.

[6] As before, these retained funds must be used by the contractor for scientific research, development, and education consistent with the research and development mission and objectives of the facility, including activities that increase the licensing potential of other inventions of the facility.

[7] The amendments to 35 U.S.C. 202(c)(2)-(3) take effect on March 16, 2013.

[8] Under the former § 102(b), sales and public-use activities qualified as prior art only where such activities occurred within the U.S. However, under the post-AIA § 102, prior art includes sales and public-use activities that occur anywhere in the world.

period (see § 202(c)(2) below); and (2) must agree to file a patent application before the expiration of the 1-year period (see § 202(c)(3) below).

This change should be noted by government contractors, because failing to meet your obligations to the government – e.g., timely disclosing a subject invention and electing to retain title thereto – may result in forfeiting your patent rights in the subject invention (see our client advisory illustrating this point).

Amended § 202(c)(2)-(3) is reproduced below showing changes from the previous version:

> (c) Each funding agreement with a small business firm or nonprofit organization shall contain appropriate provisions to effectuate the following:
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> …
>
> (2) That the contractor make a written election within two years after disclosure to the Federal agency (or such additional time as may be approved by the Federal agency) whether the contractor will retain title to a subject invention: Provided, That in any case where ~~publication, on sale, or public use, has initiated the one year statutory period in which valid patent protection can still be obtained in the United States~~ the 1-year period referred to in section 102(b) would end before the end of that 2-year period, the period for election may be shortened by the Federal agency to a date that is not more than sixty days ~~prior to the end of the statutory~~before the end of that 1-year period: And provided further, That the Federal Government may receive title to any subject invention in which the contractor does not elect to retain rights or fails to elect rights within such times.
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> (3) That a contractor electing rights in a subject invention agrees to file a patent application prior to ~~any statutory bar date that may occur under this title due to publication, on sale, or public use~~ the expiration of the 1-year period referred to in section 102(b), and shall thereafter file corresponding patent applications in other countries in which it wishes to retain title within reasonable times, and that the Federal Government may receive title to any subject inventions in the United States or other countries in which the contractor has not filed patent applications on the subject invention within such times.

Conclusion

The AIA represents a major change to U.S. patent law and can potentially affect multiple industries. Government contractors and others using government funds in their inventive efforts should be mindful of the provisions addressed above. For more information on the impact of the AIA, please visit our AIA Portal.

If you have any questions about the content of this alert, please contact the Pillsbury attorney with whom you regularly work, or the authors of this alert.

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