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Intellectual Property & Technology Update

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Latent Copyright Termination – Notes for the Unwary

By Ivan Rothman

One of the lesser-known and more surprising rights afforded authors under the US Copyright Act of 1976 (Act) is the right to unilaterally terminate a transfer or license of copyright. This termination right may not be waived, sold in advance or otherwise forfeited by contract. As a legislatively mandated, non-disclaimable, reversionary right, it is an anomaly in a legal system that cherishes freedom and certainty of contract and frowns upon restraints on alienation of property. Its avowedly paternalistic goal is to protect authors from bad deals by giving them the power to later strike a better deal reflecting a subsequent increase in the commercial value of their works. The termination right, however, does not apply to transfers by will, works made for hire or derivative works created by the transferee or authorized licensee.

The application of the termination right is subject to a complex statutory regime of intricate rules. What follows is a high-level, simplified description of the most basic principles of the termination right. As illustrated below, exercise of the termination right is likely to become more common over the next years as we enter a period in which assignment and license grants made under the Act become eligible for termination.

The starting point for applying the termination right is to determine if the grant was executed before or after January 1, 1978, as a somewhat different regime of rules applies to each. For brevity, we focus on the latter. Four questions are critical: Who may exercise the termination right, when may it be exercised, how is it exercised and what are its effects?

Who: The termination right is intended primarily to benefit the author. However, if the author has died by the time it becomes possible to exercise the termination right, the author's interest in the termination right is owned, and may be exercised, by surviving relatives pursuant to a complex scheme of rules that are beyond the scope of this article.

When: The basic rule under Section 203 of the Act is that termination of the grant may be effected at any time during a period of five years beginning at the end of 35 years from the date of execution of the grant. For purposes of illustration, let us assume that an author granted an assignment of copyright on January 1, 1978. The earliest date upon which termination of such grant could be effected would be January 1, 2013; the latest date would be January 1, 2018.

How: To exercise the termination right, written notice must be served upon the grantee or the grantee's successor in title in advance of the proposed termination date. The notice must state the effective date of termination, which must be a date that falls within the applicable five-year termination window. Additionally, the notice must be served not less than two years or more than 10 years before that date. Thus, returning to our above illustration, in order to effect termination on January 1, 2013, it would have been *necessary* to serve notice of termination at least two years earlier, i.e., by January 1, 2011. However, for a grant executed on January 1, 1978, it has, in fact, been *possible* to serve notice of termination since January 1, 2003 – a date 10 years before the earliest possible termination date of January 1, 2013.

Moreover, if notice of termination was served on or after January 1, 2003, then since the date of service it has been possible to make a new grant (presumably on improved terms) to the original grantee or such grantee's successor in title, *but not to any other party*. This means that any person(s) who owns the termination right with respect to a post-January 1, 1978 grant, and is dissatisfied with the terms of such grant, should consider serving a termination notice on the original grantee or such grantee's successor in title, as soon as 25 years have passed from the date of the grant. For the notice to be effective, a copy must be recorded in the US Copyright Office before the effective date of termination. In addition, the notice must comply, in form, content, and manner of service, with any requirements that the Register of Copyrights may prescribe by regulation.

Effect: Upon the effective date of termination, the author's previously transferred or licensed copyright rights covered by the terminated grant revert to the person(s) owning the author's interest in the termination right for the remainder of the subsisting copyright term. Thus, exercise of the termination right does not extend or otherwise modify the original copyright term. In order to determine the duration of the remainder of the original copyright term following reversion of the copyright (and, to some extent, the commercial value of the reverted copyright), it is, therefore, necessary to determine the duration of the original copyright term. For works of authorship created on or after January 1, 1978 by a single author, the duration of copyright will generally be the life of the author plus 70 years.

As noted, from the perspective of the grantee, the termination right creates a *fait accompli*. There is nothing the grantee can do to shield himself from the possible exercise of the termination right by a grantor (or a grantor's successors) whose work has increased in commercial value since the grant was made. All copyright grants, including outright assignments and perpetual licenses, are subject to the grantor's reversionary interest. This is so regardless of what the underlying grant document provided and regardless of whether or not the increase in a work's value was foreseeable or unforeseeable, modest or significant.

From the perspective of the grantor, however, it is critical to bear in mind that reversion is not automatic; rather, the grantor or the grantor's heirs must exercise the termination right in accordance with the specific and complex rules and procedures that govern this area. Failure to do so will result in a loss of the termination right. *In particular, grantors should determine at an early stage the timeframe for exercising the termination right and ensure they comply with the minimum two-year statutory notice requirement.*

For attorneys undertaking intellectual property diligence in connection with corporate acquisitions, it is important to be aware of the potential implications of the termination right. Attorneys representing buyers in any industry in which copyrights may constitute an important part of the target's intellectual property assets will need to consider carefully the risk posed by the termination right. In some cases, the risk of termination will impact valuation and merit mitigation through risk allocation provisions, such as indemnifications. While it is unlikely that there will be a rash of copyright grant terminations on or around January 1, 2013, this somewhat esoteric area of copyright law will certainly increase in importance in the years ahead.

Bring Your Own Device – Considerations for Your Policy

By Dr. Annette Demmel & Tanja Weber

Status quo

Around two thirds of companies worldwide currently allow their employees to use their personal devices for company purposes. Recent statistics estimate that in Germany at least half of the companies allow, or at least tolerate, the use of private devices for corporate use. Bring your own device (BYOD) could be a cost-saving and fast way to introduce innovative, attractive technology within the company; but it comes along with a lot of security issues and legal problems that need to be considered before sensitive business data is stored on unsecured smartphones or tablets that may become lost on trains or in restaurants. HR departments will often support BYOD as a means of motivation and a way to increase productivity, whereas IT departments fear various types of hardware can be difficult to maintain and control. The legal approach to the topic is multifaceted.

What Your BYOD Policy Should Cover

The Areas Your Policy Should Cover

In order to avoid data loss, data breaches and uncontrollable document archives, as well as corporate and personal liability, BYOD should be introduced on the basis of a binding policy or an individual agreement reflecting privacy issues, IT security, licensing requirements and employment law, which in some countries – for example in Germany – can involve difficult co-determination negotiations with the works councils.

Who Has Access To the Private Device?

The employee should be the only person with access to the device. Preventing any other person with access to the device should avoid an “illegal transfer” within the meaning of sec. 3 par. 4 Federal German Data Protection Act. However, it is advisable to properly reflect the user’s typical behavior with respect to their devices, e.g., use within a family.

How To Store and Use Data On Private Devices

If an employee needs to store company data on a private device, there needs to be written guidelines to cover this situation. Furthermore, the specifics of storage should be defined in detail, such as whether the employee is required to store certain apps on their device that are necessary for remote access, security reasons or control. It is advisable to agree on a clear separation between company and private data, and these separation duties need to be duly executed, otherwise the company may find itself in a position where access to the device is contrary to German privacy and employment law. This situation may lead to data deletion obligations – either prescribed by law or contract – that are not correctly fulfilled. It is therefore advisable to store business data in certain folders or in specially designed areas.

In addition, BYOD may also have consequences in regard to software licensing. Private devices will usually have pre-installed software including office packages. Do the underlying licensing agreements allow for business usage? The employer needs be aware of or restrict the usage of certain software for its data.

Information Duties For the Employee

The employee needs to accept certain duties with regard to the usage of their device, such as neglecting to change the configuration of the device (e.g., refrain from using “jailbreaks”) or, first and foremost, giving immediate notice to the employer if the device is lost or seems to be corrupted. Following sec. 42a of the Federal German Data Protection Act, in its role as a controller, the employer, on their part, may be obliged to notify the competent data protection authority in case of data loss or data breaches.

Technical Aspects and Mobile Device Management

Security measures, under German law, should reflect the technical and organizational measures prescribed in Exhibit 9 to sec. 9 of the Federal German Data Protection Act. These measures cover rights to be restricted, the usage of cloud services to be blocked and the installation of apps for securing the availability of company data.

Costs

Who will pay for telecommunication costs? In principle, the employer is obliged to compensate the employee for work-related telecommunication costs. If this is not the case, those costs should be explicitly included in the employee’s compensation. In any case, the respective agreement with the employee must be in line with the company’s contracts with their

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telecommunication providers. Existing company rebates might have been granted under the conditions of exclusiveness, but can BYOD violate these stipulations?

Liability

In terms of liability, the BYOD should clearly define guidelines for the employee on how to treat a device in a "reasonable way." However, in lieu of this, the German principles of liability will apply. Where the private device is damaged through corporate usage (so called operational damage – *betriebsbedingter Eigenschaden*), under German employment law, the employee will receive compensation. On the other hand, the employer's liability will, in principle, not arise for damages that result from a general risk in life. German courts have not yet taken up the topic but, presumably, some basic principles concerning corporate use of private cars may apply accordingly.

In addition, the employer needs to consider their liability to third parties due to data loss, data corruption, or the costs of rectification of a security problem in absence of a security concept or reasonable behavior of its employees.

Co-determination Rights Of the Works Councils

Implementing a BYOD policy or amending an existing IT policy is subject to German co-determination rights of the works council, if established, in the respective company. Following Article 87 par. 1 nos. 1 and 6 Works Constitution Act, the works council's co-determination rights include the involvement in deciding on matters relating to conduct of employees in the establishment, and the introduction and use of technical devices for monitoring employees' conduct and performance. The employer therefore cannot take any action with regard to BYOD policies without the agreement of the works council and, indeed, either side can take the initiative in such matters. In consequence, the works council can even require the company to accept rules on these matters by referring to the conciliation board. However, it remains the company's business decision to allow BYOD or prohibit the usage of private IT for corporate purposes. Moreover, the employee's consent for BYOD is essential in any case.

International Design Patent Applications and Revival of Unintentionally Abandoned Applications – Two Main Effects of the Patent Law Treaties Implementation Act of 2012

By Peter C. Flanagan

Thanks to a new law, international design patent applications will soon be a reality for US applicants, and it soon will be easier to revive abandoned patent applications. Specifically, the Patent Law Treaties Implementation Act of 2012 implements two treaties adopted by the Senate five years ago: the Geneva Act of the Hague Agreement Concerning International Registration of Industrial Designs and the Patent Law Treaty. It is expected that this law will shortly be signed by President Obama, and will be effective one year from the date it is signed into law.

The Patent Law Treaty was adopted at Geneva on June 1, 2000. For the US, the primary effect of implementing this treaty is to permit revival of applications in cases where abandonment was unintentional. For example, revival is possible when an applicant fails to file in the US within 12 months of filing in a foreign country. Specifically, the 12-month deadline can be extended by two months if the delay in filing was unintentional. This provision should not change the diligence with which patent applications are filed, but provides relief in cases where the 12-month filing deadline is accidentally missed.

The law also obviates, and therefore removes, the option of showing "unavoidable" delay (a higher standard than "unintentional" delay) in cases of failing to respond to an Office Action within six months, or failing to commence national stage at the 30 month deadline.

There are further changes that the law also introduces. For example, the law permits applicants to obtain a filing date without providing any claims. However, claims must be submitted within a specified time period after the application is filed. The law further permits filing international applications in a language other than English, so long as an English translation is filed within a certain period of time.

As noted above, the law also implements the Geneva Act. The Geneva Act was adopted at Geneva on July 2, 1999. As provided for under the Geneva Act, it will be possible for US applicants to file international design patent applications with the US Patent and Trademark Office. Although international patent applications have been possible for utility inventions for many years, design patents have not had the same treatment for US applicants.

As with international utility patent applications, there will be an option for US patent application to file the application at an International Bureau, rather than with the USPTO, if desired.

Traditionally, US design patent applications have not been published until after they have been granted. By contrast, international design patent applications will, by default, be published. However, applicants can request deferred publication, when permitted by national law for any country designated in the international application. In other words, some countries require earlier publication, and if the international application is to be relevant to those countries, it will have to be published earlier. The deferred publication would take place at 30 months.

The law also extends the term of design patents. Previously the term was 14 years from grant, but this has been extended to fifteen years.

A number of major jurisdictions, such as Russia, India, Japan, and the People's Republic of China have not adopted the treaty. However, the European Union has adopted the treaty, and thus this treaty may serve to further the international registration of industrial designs between Europe and the US.

Australian Privacy and Data Protection Off-Shore and Online: It's Time For a Privacy Audit

By Alex Butterworth

In the social media age privacy seems to be the last thing that many users are concerned about. Social media users will freely post a range of information about themselves online: what they ate for breakfast, where they live, their favorite song, what tie they wore to work that day and much more.

Despite this apparent disregard for online privacy, there are very real concerns about how data is recorded and used among social media users and consumers more broadly. Recent surveys have shown that between 85% and 90% of Australians want more control over how businesses collect and use their personal information.[1] Further, 56% of Australians do not approve of having advertising targeted to them based on personal information.[2] These are concerning figures for businesses and online retailers who are increasingly taking advantage of social media and online search engines to better target their products and services at those who want them.

The concerns appear to come primarily from consumers not being aware of what information is collected and how it is used. According to the University of Queensland's Dr. Mark Andrejevic, "companies know more and more about us, but we know very little about what they're doing with that information."[3] Anyone with a Gmail account, need only visit google.com/history to find that Google has collected information about every search that you have made while logged in to your Google account.

Recent changes to the Australian Privacy Act 1988 (Cth) (Privacy Act) will have an impact on all Australian businesses that collect personal

[1] University of Queensland, "Australians concerned for online privacy," (Press Release 14 March 2012).
[2] University of Canberra, "Australians demand online data breach notification: UC survey reveals," (Press Release 1 May 2012).
[3] University of Queensland, above n.1.

information about consumers. If you maintain names, addresses, phone numbers and other information about your customers, you will need to be aware of the changes to the Privacy Act and how they affect you.

Privacy Policies and Compliance Programs

For many Australian businesses, the first step on the road to compliance is preparing a clearly expressed and up-to-date privacy policy. Until recently, having a privacy policy has been a voluntary, albeit wise, initiative. However, the amendments to the Privacy Act will require all businesses conducting operations in Australia and collecting personal information, to not only have a privacy policy, but to have one that is clearly expressed and up-to-date. This is no longer a wise "optional extra."

For businesses with a privacy policy already in place, it is now time to update that policy to take into account the recent changes. The first simple step will involve updating outdated references to the National Privacy Principles with the new Australian Privacy Principles (APPs), but there is more to it than that. Privacy policies will need to clearly detail how privacy complaints can be made to the organization, and how those complaints will then be dealt with. For businesses storing information offshore through cloud computing or other storage systems, their privacy policies must specify whether information will be sent overseas, and specify the countries where that data will be stored.

In addition to having a clearly expressed and up to date privacy policy, the changes to the Privacy Act also require that businesses develop and document a privacy compliance program. This program needs to ensure compliance with the APPs, manage risks, establish and maintain adequate privacy complaint handling mechanisms, and ensure that staff training and IT systems are up to speed.

Off-Shore Data Storage

Under the old National Privacy Principles, data was able to be transferred off-shore provided that one of five principles was met. These included obtaining consent from the individual concerned, or reasonably believing that the overseas recipient was subject to a law, binding scheme or contract which effectively upheld the National Privacy Principles.

Overseas data-storage will now be dealt with under APP 8. The new laws will require Australian businesses to take reasonable steps to ensure that overseas data recipients do not breach the APPs. Often this will involve entering into a contractual arrangement with the supplier that requires them to comply with Australian law.[4] The new laws also impose full liability on Australian businesses for breaches of the APPs by their offshore data storage contractors, which creates an additional incentive to pay careful attention to contractual arrangements with off-shore suppliers.

For Australian businesses currently involved in off-shore data storage, or looking at cloud computing, there is a need to review, and potentially renegotiate, service provider contracts. Any Australian business looking at off-shore data storage as an option will need to know which country or countries that data will be stored in. For many low-cost global providers this information may not be available, which unfortunately may then rule them out of consideration.

Compliance With Australian Regulation Overseas and Foreign Regulation In Australia

The Privacy Act applies extra-territorially if the personal information relates to an Australian citizen or permanent resident, and the organization collecting the information is connected with Australia (i.e., an Australian partnership, Australian registered company, Australian trust, etc.). Australian entities, including subsidiaries of international corporate groups, need to be aware of their obligations under the Privacy Act to Australian citizens and residents, even if most of their operations are overseas.

For many businesses, compliance with Australian regulation may be the easy part; what is more concerning is compliance with overseas regulations that apply extra-territorially on Australia soil. On 25 May 2011, EU member

[4] *Privacy Amendment (Enhancing Privacy Protection) Bill 2012* (Cth), Explanatory Memorandum, p. 83.

states were required to adopt amendments to Directive 2002/58 on Privacy and Electronic Communication. Under those amendments, websites are obliged to obtain the users' permission before storing or accessing information about them (unless that data is needed for services explicitly requested by the user). Concerns have been raised that these laws may apply not just to websites hosted or operated in the EU, but to all websites accessible in EU countries.[5]

Data Security

The data security elements of the Privacy Act have not been materially changed by the recent amendments, but businesses will still need to be familiar with these requirements.

Under the data security requirements, an organization must take reasonable steps to protect the personal information it holds from misuse and loss and from unauthorized access, modification or disclosure. Likewise, an organization must take reasonable steps to destroy or permanently de-identify personal information if it is no longer needed for any purpose for which the information may be used or disclosed under the APPs.

It is essential that businesses have proper data security measures in place to ensure compliance. This includes practical security measures, such as anti-virus software, anti-spyware software, firewalls and staff training to deal with security threats and breaches.

Penalties

The changes to the Privacy Act now allow for the Privacy Commissioner to seek civil penalty orders of up to AUS$220,000 for individuals and up to AUS$1.1 million for companies that breach privacy laws. This is a power that the Privacy Commissioner did not previously have, and adds to the reasons why businesses should take action early to ensure compliance.

For assistance drafting a privacy policy for your business, or advice regarding Australian privacy laws and compliance, contact Bruce Legorburu, bruce.legorburu@squiresanders.com.

[5] Liz Tay, "Privacy Commissioner Examines EU cookie law," *itnews*, (Australia), 4 July 2011.

Modifications to "Correct and Improve" the America Invents Act

By Majid AlBassam

The Leahy-Smith America Invents Act (AIA) was signed into law by President Obama on September 16, 2011. Now, a little over a year after its passage, Congress has passed a Bill to "correct and improve certain provisions" of the AIA. Although titled as improving provisions of the AIA, some portions of the Bill touch upon aspects of patent law that were not addressed by the AIA and may actually reduce the term of certain patents.

For example, the Bill limits the term of those patent applications that were filed before the enactment of the General Agreement on Tariffs and Trade (GATT), i.e., on or before June 7, 1995. These pre-GATT applications were to have a patent term of 17 years from their issuance date. The Bill includes a provision to retroactively modify the term for these applications. Specifically, the Bill specifies that any of the pre-GATT applications that are still pending one year after passage of the Bill will only receive a term of 20 years from their earliest filing date. As a result, some patents resulting from pre-GATT applications could have most or all of their remaining term eliminated since more than 20 years may have elapsed since their earliest filing dates.

The rationale for modifying the terms of pre-GATT applications in the manner provided by the Bill is that such applications provide an unfair advantage to the patent owner over competitors. Sponsors are concerned that granting patent protection for "old" technologies will create uncertainty in the marketplace and may encompass subject matter long thought to be in the public domain. This could cause significant harm to both competitors and the public.

Thus, at least at first glance, limiting the patent terms of pre-GATT patent applications seems reasonable. Opponents, however, believe that the Bill may go too far in extinguishing vested property rights of patent owners. This would be especially true for owners of pre-GATT patent applications that have been delayed in prosecution through no fault of their own. It is possible that some pre-GATT applications have languished in prosecution due strictly to USPTO delay or error.

Given the frequency of such situations, a middle ground may be to amend the Bill to take into account the reasons for the prolonged pendency of the remaining pre-GATT patent applications. In addition, for pre-GATT applications that are still pending, Congress should seek ways to allow the USPTO to process them in an expedited manner. This approach would balance the interests of the owners of the pre-GATT patent applications with those of their competitors and the general public.

Another aspect of the Bill that affects patent terms relates to the calculation of the so-called patent term adjustment (PTA) period. Currently, for international PCT applications, PTA can begin to be accumulated as of the filing date of the PCT application that later enters the national stage in the US. The Bill delays any accumulation of PTA and states that PTA calculations begin the date "of commencement of the national stage under section 371 in an international application." The Bill also requires that the USPTO provide its PTA determination "no later than the date of issuance of the patent" rather than "with the written notice of allowance." Accordingly, the patent owner will be notified of any PTA more than three months later than under current rules, which in turn reduces the time period that the patent owner has to evaluate the USPTO's PTA determination.

These changes to pre-GATT application terms and PTA may be the most significant provisions of the Bill. Interestingly, while the Bill was introduced to "correct and improve certain provisions" of the AIA, no original provisions of the AIA addressed these aspects.

Recent Developments in Patent Term Adjustment Practice

By Django H. Andrews

The standard term of a patent is 20 years from the date the application is filed. Under the Patent Act, US patents are subject to adjustment to compensate for US Patent and Trademark Office (USPTO) delays. The basic statutory scheme is based on an expected patent application pendency of no more than three years. If a patent is issued more than three years from its filing date, then its term is extended one day for each day beyond three years, less any delay attributed to the Applicant. Extension is also available for other USPTO delays during the pendency of the patent application. These extensions are referred to as Patent Term Adjustments (PTA). An award of PTA by the USPTO extends the life of a patent and can be important to the value of issued US patents.

Recent court decisions have clarified the way that the USPTO should award PTA and can result in a longer patent term, often for a significant and valuable time period. Because the USPTO has yet to implement these court decisions into their automatic calculation of PTA, patent holders will need to request a recalculation of the PTA provided by the USPTO in order to receive the benefit of these decisions. This article summarizes the recent cases and provides recommendations on how patent holders can best take advantage of them.

Continued Examination and Appeals After Three Years No Longer Affect PTA

The USPTO has treated the filing of a Request for Continued Examination (RCE) anytime during prosecution as terminating the guarantee of three-year patent pendency. Thus, once an RCE was filed, any further delays (whether or not caused by the USPTO) would not result in a longer PTA.

Recently, in *Exelixis, Inc. v. Kappos*,[6] the US

[6] *Exelixis, Inc. v. Kappos*, Case No. 1:12cv96 (E.D. Va. Nov. 1, 2012) (reported at 2012 U.S. Dist. LEXIS 157762).

District Court for the Eastern District of Virginia held this practice does not comport with the plain meaning of 35 USC §154(b)(1)(B).[7] The court reasoned that filing an RCE only terminates the guarantee of three-year patent pendency if the request is filed within three years from the filing date. According to the court, Section 154(b)(1)(B) "start[s] a three year clock on the date the application is filed, toll[s] the running of this clock if, within the three year period, any of three events occur, including an RCE filing, and add[s] a day for day PTA to the patent term for any delay in the issuance of the patent after the three year clock, less any tolling, runs out."

Significantly, *Exelixis* holds the filing of an RCE after three years from the filing date has no impact on the guarantee of three year patent pendency and will not reduce the amount of PTA due.

Although not stated explicitly by the court, we believe the interpretation of Section 154(b)(1)(B) in *Exelixis* also applies to the filing of an appeal to the Board of Patent Appeals and Interferences (BPAI), because an appeal is one of the "events" listed in Section 154(b)(1)(B). The other "events" listed in Section 154(b)(1)(B) are the imposition of a secrecy order, an interference proceeding, and delay requested by the applicant. Thus, under the reasoning of *Exelixis*, the filing of a Notice of Appeal after three years from the filing date should have no impact on the guarantee of three year patent pendency and should not reduce the amount of PTA due.

The ruling in *Exelixis* may significantly adjust the term of US patents where there has been an RCE or appeal filed. In pending examinations, applicants should carefully consider the timing of the filing of any RCEs or Notices of Appeal in light of this ruling. In some cases, it may be wise to delay such filings until after three years from application filing in order to take advantage of the three year pendency guarantee, even if extension fees are required to do so.

It appears the USPTO will appeal the District Court decision in *Exelixis* to the Court of Appeals for the Federal Circuit. USPTO, therefore, has yet to adjust their automatic PTA calculation to account for the *Exelixis* decision. In order for applicants to receive the additional patent term due under this decision, a Request for Reconsideration of Patent Term Adjustment must be filed with the USPTO within two months of patent issuance.

Three Year Pendency Guarantee No Longer Affected by Timely Filed Responses

The USPTO currently treats any response to an Office Action submitted more than three months after the USPTO mailed the Office Action as applicant delay and reduces the PTA accordingly. Under current practice, if a response to Office Action is due on a weekend or holiday, the response can be timely filed on the next business day.[8] However, an applicant would lose PTA for an otherwise timely filing on the next business day. Thus, for example, if a deadline for response falls on a Saturday, and a response is filed the following Monday, the response would be timely filed, but the USPTO would deduct two days of applicant delay from the PTA ordinarily afforded.

In *ArQule, Inc. v. Kappos*,[9] the US District Court for the District of Columbia found this practice incorrect under a plain reading of 35 USC §154(b)(2)(C)(ii)[10] and 35 USC §21(b)[11]. Because Section 21(b) provides a grace period for responses due on a weekend or federal holiday, the court reasoned the same grace period applies to the application of applicant delay under Section 154(b)(2)(C)(ii). In short, Applicants cannot be penalized under Section 154(b)(2)(C)(ii) by a reduction in PTA for taking advantage of the grace period under Section 21(b).

As with the *Exelixis* decision, the USPTO has yet to adjust their automatic PTA calculation to account for the *ArQule* decision. In order for Applicants to receive the additional patent term due under this decision, an Application for Patent Term Adjustment must be filed with the USPTO by payment of the Issue Fee.

[7] 35 USC §154(b)(1)(B) (2011 current through October 23, 2012).

[8] 35 USC §21(b) (2002 current through October 23, 2012).

[9] *ArQule, Inc. v. Kappos*, 793 F. Supp. 2d 214 (D.D.C. 2011).

[10] 35 USC §154(b)(2)(C)(ii) (2011 current through October 23, 2012).

[11] 35 USC §21(b) (2002 current through October 23, 2012).

Deadlines for Requesting Reconsideration of USPTO PTA Calculation

Applicants can request reconsideration of the PTA determination provided by the USPTO by filing an Application for PTA or a Request for Reconsideration of PTA with the USPTO, or by appealing the PTA determination to the District Court of Eastern Virginia.

To request review of the PTA calculation provided with a Notice of Allowance, applicants must file an Application for PTA no later than the payment of the Issue Fee. To request review of the PTA calculation provided with an Issue Notification, patent holders must file a Request for Reconsideration of PTA within two months of the patent issuance date. Under USPTO regulations,[12] any issues that were raised, or could have been raised, in a pre-issuance Application for PTA shall be dismissed as untimely as to those issues if raised in a post-issuance Request for Reconsideration of PTA.

An appeal of a PTA determination provided by the USPTO must be filed within 180 days of the patent issue date. This appeal must be filed in the US District Court for the Eastern District of Virginia. Pursuant to a recent Court decision[13] an appeal would also be timely filed within 180 days after denial by the USPTO of a Request for reconsideration of PTA. According to the US District Court for the District of Columbia, filing a Request for reconsideration of PTA tolls the 180 day deadline.

Recommendations

We recommend applicants carefully review the timing of filing of an RCE or a Notice of Appeal in view of the *Exelixis* decision. If possible, applicants should consider delaying such filings until after three years from application filing in order to take advantage of the three year pendency guarantee, even if extension fees are required to do so.

Additionally, given the potentially significant amount of additional patent term available under these new decisions, we recommend applicants review every USPTO PTA calculation before payment of an Issue Fee and again within two months after issuance of a patent. Applicants and patent holders should file a Request for reconsideration of PTA or appeal the PTA determination when appropriate.

[12] 37 CFR §1.705 (d) (2004).

[13] *Novartis AG v. Kappos*, Case No. 10-cv-1138 (D.D.C. Nov. 15, 2012) (reported at 2012 U.S. Dist. LEXIS 163237).

The AIA's Exception to Grace Period Publications as Patent Prior Art

By James Reed

Under the 1952 Patent Act a publication is not prior art if the inventor can prove a date of invention before the publication date, provided that date was within one year of the patent application's filing date.[14] This one-year prior art grace period, as it has become known, stands out in contrast to the more widely held principle that anything known before the application filing date is, without exception, prior art.[15] The America Invents Act (AIA), ostensibly called a "first-to-file" system, also provides a grace period, but with an entirely different standard for excluding as prior art publications that occur within a year of the application's filing date.[16]

When determining what is or is not prior art to a patent application, the 1952 Patent Act focuses solely upon what had been invented and when the invention occurred. A publication's content is irrelevant, because the inquiry of whether a grace period publication is prior art rests solely on what the inventor claimed as its invention and whether it could prove a date of invention prior to the publication date. But under the AIA those invention details are now irrelevant. The focus is

[14] The 1952 Patent Act provides that "[a] person shall be entitled to a patent unless . . . the invention was . . . described in a printed publication . . . *before the invention* thereof by the applicant for patent." 35 USC §102(a) (1952) (emphasis added). Publications occurring more than one year prior to the filing date, however, are prior art regardless of the invention date. *See* 35 USC §102(b).

[15] Publications are, of course, only one type of prior art under the AIA. For the sake of simplicity this article refers only to the publication-type of prior art, with the understanding that the same concepts discussed herein can apply to the other variety of prior art.

[16] Hereinafter a publication within one year of the filing date of a patent application is called a "grace period publication."

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instead on the grace period publication's disclosure:

> A disclosure made 1 year or less before the effective filing date of a claimed invention shall not be prior art to the claimed invention . . . [if] the subject matter disclosed had, before such disclosure, been publicly disclosed by the inventor . . . .[17]

Thus, the AIA grace period exception to prior art[18] does not apply unless the "subject matter disclosed" was earlier publicly disclosed by the inventor. Hence, a grace period publication stands as prior art for anything it teaches or suggests about the invention, depending on the earlier disclosure by the inventor. What the inventor invented and the similarity between its earlier disclosure and later-filed application appears, therefore, in large part irrelevant to whether Section 102(b)(1)(B) applies. Consequently, this aspect of the AIA also represents a significant departure from pre-AIA law.

What then does or does not qualify as an earlier disclosure for purposes of invoking the Section 102(b)(1)(B) exception to prior art? The courts likely won't answer this question for several years, since it will be a few years before a patent subject to the AIA's prior art rubric issues, or a finally rejected application is appealed to the Federal Circuit. In the meantime, the US Patent & Trademark Office (USPTO) construes Section 102(b)(1)(B) this way:

> Even if the only differences between the subject matter in the prior art disclosure that is relied upon under 35 USC 102(a) and the subject matter publicly disclosed by the inventor before such prior art disclosure are mere insubstantial changes, or only trivial or obvious variations, the exception under 35 USC 102(b)(1)(B) does not apply.[19]

Assuming the USPTO promulgates examination guidelines in accordance with this interpretation of the statute, it will therefore be immaterial during prosecution whether the differences between an inventor's earlier disclosure and the publication are minor. Indeed, even where the inventor discloses prior to the grace period publication a carbon-copy of the claimed invention, down to the minutest detail, the Section 102(b)(1)(B) exception still might not apply.

Patent Prosecution – An Example of How Section 102(b)(1)(B) Might Apply

During the course of a near-future US patent prosecution the USPTO cites a grace period publication against the patent application. The patent applicant, however, believes it has a prior publication to negate the grace period publication as prior art under Section 102(b)(1)(B). If the exception applies, the USPTO withdrawals the publication as prior art. An example follows.

The applicant claims an apparatus comprising a turbine, a generator, and a flexible coupling for transmitting torque from the turbine to the generator. The effective filing date for the application is March 21, 2013. The USPTO rejects the application based on a combination of prior art, one of which is a "flexible coupling" described in the December 2012 edition of the trendy magazine *Couplings for Couples*. It shows an Oldham coupling, which is a flexible coupling that is described as permitting lateral displacements of up to 10 degrees and angular displacements or excursions up to 90 degrees between the coupled shafts.

Independent Claim 1 broadly recites aspects of the generator and geartrain of the turbine connected by "a flexible coupling". And dependent Claim 2 recites that the flexible coupling of Claim 1 is an "elastomeric coupling". The application also provides that the elastomeric coupling permits lateral excursions of up to 10 degrees and angular excursions up to 30 degrees.

Claims 1 and 2 stand rejected as obvious over the prior art. The rejection relies upon the

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[17] *Leahy-Smith America Invents Act*, Pub. Law 112-29 [H.R. 1249], Sept. 16, 2011 (codified in 35 USC §102(b)(1)(B) (hereinafter "Section 102(b)(1)(B)").
[18] *Supra* note 17.
[19] *Examination Guidelines for Implementing the First-Inventor-to-File Provisions of the Leahy-Smith America Invents Act*, 77 Fed. Reg. 43,759 at 43,769 (July 17, 2012).

Oldham coupling described in *Couplings for Couples*. Claim 1 is rejected because the publication discloses a flexible coupling. Claim 2 is rejected because it would have been obvious

to utilize an elastomeric material in place of an Oldham coupling.

In July 2012 the inventor disclosed a universal-type coupling, which permits lateral and angular excursions like an Oldham coupling, but is not the same as an Oldham coupling. A universal-type coupling, unlike an elastomeric or Oldham coupling, has lateral excursions of up to only a few degrees but angular excursions of up to 90 degrees.

With these facts, one might expect the following outcomes during prosecution:

- Section 102(b)(1)(B) should apply for Claim 1 because the inventor earlier disclosed the same subject matter that was disclosed in *Couplings for Couples* – a "flexible coupling".
- Section 102(b)(1)(B) should not apply for Claim 2 because the inventor earlier disclosed a universal-type coupling, which is different from the Oldham coupling disclosed in *Couplings for Couples*.
- Section 102(b)(1)(B) should apply for Claim 2, if this claim is amended by replacing "elastomeric" with - - the coupling permits angular excursions up to 30 degrees – because the inventor's earlier disclosed universal-type coupling, like the Oldham coupling in *Couplings for Couples*, permits angular excursions up to 90 degrees.

Thus, the inventor's prior disclosure of a universal-type of flexible coupling disqualifies the grace period publication as prior art under Section 102(b)(1)(B) for Claim 1, but not Claim 2 because an universal-type of flexible coupling is not the same as an Oldham coupling. However, if Claim 2 is amended to recite a range falling within the identical disclosed ranges for angular excursion in both the earlier disclosure and the prior art, Section 102(b)(1)(B) should also disqualify the prior art for Claim 2.

As this example attempts to illustrate, status as prior art under Section 102(b)(1)(B) is determined solely from a comparison between the grace period publication disclosure and any earlier disclosure by the inventor. Accordingly, where the inventor's earlier disclosure is identical to the subject matter claimed in the patent application, Section 102(b)(1)(B) will not apply unless that disclosure is also identical to the grace period publication disclosure, at least under the PTO's interpretation of the statute.

Squire Sanders Intellectual Property & Technology Practice

Andrew Clay
Intellectual Property & Technology Update Co-Editor
Birmingham
T +44 121 222 3358
andrew.clay@squiresanders.com

Joseph A. Meckes
Intellectual Property & Technology Update Co-Editor
San Francisco and Palo Alto
T +1 415 954 0201
joseph.meckes@squiresanders.com

David S. Elkins
Intellectual Property & Technology Practice Group Leader
Palo Alto and San Francisco
T +1 650 843 3378
david.elkins@squiresanders.com

Carl Rohlser
Intellectual Property & Technology Practice Group Leader
London
T +44 20 7655 1662
carl.rohlser@squiresanders.com

Contributors

Majid AlBassam
T +1 703 720 7898
majid.albassam@squiresanders.com

Django H. Andrews
T +1 415 954 0381
django.andrews@squiresanders.com

Alexander Butterworth
T +61 8 9429 7685
alex.butterworth@squiresanders.com

Dr. Annette Demmel
T +49 30 72 616 8108
annette.demmel@squiresanders.com

Peter C. Flanagan
T +1 703 720 7864
peter.flanagan@squiresanders.com

James L. Reed
T +1 415 954 0314
james.reed@squiresanders.com

Ivan Rothman
T +1 415 954 0241
ivan.rothman@squiresanders.com

Tanja Weber
T +49 3072616 8106
tanja.weber@squiresanders.com