

Impact of the America Invents Act on patent valuation

The newly enacted America Invents Act has comprehensively overhauled the patent system, with several key changes likely to impact on the patent monetisation process

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After several years of seemingly dead-end discussions about reforming the patent system in the United States, Congress finally passed the America Invents Act, which President Obama signed into law on 16th September 2011. The act is generally considered to be the most significant reform in US patent law in the last 60 years, although many parties feel that it does not go far enough.

The act comprises a mélange of changes in different areas, some more significant than others. Many of the most significant changes have not yet taken effect or been fully implemented, so their true impact remains to be seen. However, a closer look at several of these changes can provide some insights into the likely impact on the patent process and patent monetisation.

First to file

The most heralded of the changes is the move towards a first-to-file patent system, away from the existing first-to-invent approach. With this change, the United States appears to be joining the rest of the world. Adoption will be delayed for 18 months after the act becomes law to allow for two studies on prior user rights and the impact of the new system on small businesses to be completed.

However, the act's system is not a pure first-to-file system. The statutory language in new Sections 102(a) and (b) of Title 35 of the United

States Code provide that the inventor which independently discloses first will prevail – even over a party which invented first and filed first.

Section 102(a) provides the basis of the first-to-file system. It provides that a party shall be entitled to a patent unless the claimed invention was:

- Patented, described in a printed publication or in public use, on sale or otherwise available to the public before the effective filing date of the claimed invention.
- Described in an issued patent or a published patent application naming another, and effectively filed before the effective filing date of the claim invention.

Section 102(b) sets forth two exceptions to Section 102(a) that limit disclosures that can be considered as prior art. Section 102(b)(1) provides that a disclosure made one year or less before the effective filing date of the claimed invention shall not be prior art under Section 102(a)(1) if:

- The disclosure was made by the inventor or joint inventor or by another which obtained the subject matter disclosed directly or indirectly from the inventor or joint inventor (ie, a third party which derived the subject matter from the inventor).
- The subject matter disclosed had, before such disclosure, been publicly disclosed by the inventor, joint inventor or another which obtained the subject matter disclosed directly or indirectly from the inventor or joint inventor.

Section 102(b)(2) provides that a disclosure shall not be prior art under Section 102(a)(2) if:

- The subject matter disclosed was obtained directly or indirectly from the inventor or joint inventor.

- The subject matter disclosed had, before it was effectively filed, been publicly disclosed by the inventor or a joint inventor or by another which obtained the subject matter disclosed directly or indirectly from the inventor or joint inventor.
- The subject matter disclosed and the claimed invention were owned by the same party (or subject to an obligation of assignment to the same party) no later than the effective filing date of the claimed invention.

Thus, the new system may more properly be termed 'first-to-publish' or 'first-to-disclose'. Moreover, the term 'disclosure' is not defined by statute, and its scope will remain uncertain for some time.

A prior disclosure or patent application may be disqualified as prior art if the subject matter of the prior disclosure or patent application was derived from the later-filing inventor. Derivation proceedings, which may be pursued before the US Patent and Trademark Office or in court, will be the route to resolve these disputes. They replace the interference proceedings that are used for resolving first-to-invent disputes under the previous system.

The first-to-file system is expected to come into effect on 16th March 2013. However, it will apply only to patents with an effective filing date prior to that effective date. This means that all patent applications filed prior to that date, and continuations or divisionals thereof that do not add new subject matter, will continue to be governed by the first-to-invent rules. Thus, the patent community in the United States will have to deal with two sets of rules for many years to come until all patents with an effective filing date prior to 16th March 2013 expire.

The new system will require a more proactive patent filing strategy, possibly based around the frequent use of provisional patents to capture the initial inventive concept and significant changes as it is developed. The general rule will be to file early and file often. However, the fear is that the pressure to file applications early will lead to an increase in the number of applications being filed, along with a lower quality of applications. This is likely to be of most significance to US-only inventors, as any applicant wishing to preserve foreign filing rights would already be filing early and seeking the to avoid the 'absolute

novelty' bar applied in most countries.

Given the above, it is clear that the act will lead to increased complexity and uncertainty in the patent marketplace. For at least another decade or two, any significant patent portfolio will contain patents subject to the first-to-invent rules, as well as newer patents subject to the first-to-file rules. The uncertainty in what constitutes a 'disclosure', and the possibility of some undiscovered disclosure invalidating an issued patent, will likely lead to some downward pressure on the value of patents under the new system – at least until some of the uncertainty is resolved.

Prior art redefined

To go along with the first-to-file system, the one-year grace period to avoid the statutory bar in the United States becomes more limited. Under the current system, an inventor has up to one year after the sale, offer to sell or public use or disclosure of an invention to file a patent application. The act now limits the one-year grace period to disclosures made by an inventor (or on the inventor's behalf). As discussed above, it is not yet clear what a 'disclosure' means.

In addition, the prior art sale/offer to sell bar has been expanded to include sales and offers anywhere in the world, not just in the United States. Further, all patents or published patent applications will now be considered prior art as of the filing date of the first application filed anywhere in the world to which priority is claimed. Previously, the filing date in the United States was used.

The end result of these changes is that it will be at least a little more difficult to obtain a patent. Coupled with the recent decline in patent allowance rates in the United States (below 50% at present), and the possible increase in the number of lower-quality applications being filed in response to the first-to-file changes, this may lead to a lower value being given to a pending patent application, as the chances of an enforceable patent being issued will decline. This also is likely to place increased emphasis on due diligence related to prior art.

It will also help patent defendants, which will be able to go outside the United States to find evidence of prior public use or sale. This will provide some downward pressure on valuations.

Additional routes for challenges or review

The act provides for two new procedures for a third party to seek review of a patent after it issues, as well as an expanded mechanism for a third party to submit prior art for review while the application is still pending:

- A post-grant review allows a third party to challenge the validity of a patent on any statutory grounds within nine months of issuance. This is, in essence, a form of ‘opposition’ proceeding.
- *Inter partes* review takes the place of the current *inter partes* re-examination process, but with changes to the standard for granting review and the reviewing entity.

Both of these procedures are subject to estoppel, so a third party initiating either process may be prevented from separately challenging the patent on any ground that was raised or reasonably could have been raised in the proceedings.

The new post-grant review process and the expansion of third-party submissions will increase the challenge of obtaining a patent, with the effects as discussed above. They provide a cheaper and quicker alternative to litigation for defendants to attack a patent. However, these processes could ultimately increase the value of a patent, since any patent that survives these third-party processes arguably should be stronger and of higher value. In addition, the mere fact of a third party implementing these processes may be an indicator that the subject matter of the patent is of significant value. Based on the fees proposed by the US Patent and Trademark Office, the cost of post-grant review or *inter partes* review proceedings will be substantial, albeit less than litigation, and there is little incentive to incur these costs unless the subject matter is of importance.

Prior commercial use defence

The prior commercial use defence in patent litigation, which was previously limited to business methods, has been expanded to include other categories of patentable subject matter. The defence requires commercial use more than one year prior to the patent’s filing or disclosure date (the prior commercial use defence was not so limited). The entities

covered have also been expanded to include affiliated entities or companies with some form of common control. The defence is personal and cannot be transferred or assigned to a third party, except as part of the transfer of an entire enterprise or line of business.

The true effect of this change remains to be seen. It applies to any patent issued after the effective date of the act, and discussion in the patent community indicates that the defence may encourage many companies to rely more on trade secret protection when possible. The broadening of its scope should exert a downward pressure on patent values by making the defence available to more defendants. The uncertainty of whether a particular defendant will be able to raise this defence (which will be particularly difficult if the defendant has been treating the subject matter as a trade secret) is also likely to have an adverse effect on values.

The big winners from this provision, however, are likely to be the academic community and the ‘tech transfer’ community. The prior commercial use defence cannot be asserted if, at the time that the claimed invention was made, it was owned by or subject to an obligation of assignment to either an higher education institution or a technology transfer organisation, whose primary purpose is to facilitate the commercialisation of technologies developed by one or more such educational institutions, provided that the activity required to reduce the subject matter to practice was not prohibited from being undertaken using federal funds. Thus, any particular patent will be more valuable if it is in the hands of an academic institution or a technology transfer organisation, which should encourage licensing of these patents.

In summary, the America Invents Act introduces some new hurdles on the track to obtaining a patent and raises the height of others. It introduces substantial uncertainty in several areas of patentability and enforcement, and may require more in the way of due diligence in patent valuations. This may lead to a general downward pressure in values – at least until some of the complexities and uncertainties are resolved. *iam*

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