

PATENTS AND BUSINESS: 9 TRENDS TO EXPECT THIS YEAR

This article first appeared in *Law360*, January 14, 2013.

by *Patrick A. Doody*



Patrick A. Doody
Partner
Intellectual Property
+1.703.770.7755
patrick.doody@pillsburylaw.com

Mr. Doody is a partner in the Intellectual Property Section and is a member of the Medical Devices and Life Sciences groups. He focuses on a broad spectrum of intellectual property matters, providing flexibility and creativity in counseling clients in the pharmaceutical, medical devices, chemical, and biotech technology sectors.

The end of one year and the start of another is the traditional time for reflections and predictions, which will likely be issued this month for every possible realm of human endeavor and interest. My primary interests and endeavors happen to be in obtaining, protecting and challenging patents for companies, so I am pleased to take on this traditional duty for IP Law360.

A couple of particularly important trends should be noted right at the start. First, many businesses that previously avoided the patent system are now playing an active role, including banks and other financial services companies, insurance companies, retail stores and consulting organizations. Whether they have been hit with a patent infringement suit or are trying to avoid one, these companies are realizing that patents are indeed relevant to their business. Some are already using the new post-grant review process described below.

Second, the recently enacted Leahy-Smith America Invents Act is taking effect in stages and providing new ways for prosecuting patent applications and litigating patent disputes. We now have some early data on how provisions of the AIA are playing out at the U.S. Patent and Trademark Office, which in turn informs some

of our patent predictions for 2013. So here they are.


1) Businesses Will Get Serious About Being “First Inventor to File”

The most significant change in the AIA that will impact business is the change from a first-to-invent system to a first-inventor-to-file system. Businesses will need to streamline their patent procurement procedures to reduce the time from invention conception to filing a patent application. Many provisions of the AIA are vague and unclear, and it likely will be years before the courts fully analyze the meaning of the statute. But as of today, it would appear that businesses will not be penalized for nonpublic commercialization and sales efforts seeking to monetize and commercialize an invention.

2) More Startup Entities Will File for Prioritized Examination

For small startups, a patent covering a core idea may be their most valuable asset — and securing the patent is often mandatory in order to attract additional venture funding. The AIA provides an excellent new avenue for patenting an invention far more quickly and easily than previously possible.

The prioritized examination process costs a little more up front but likely



saves (or attracts) money in the long run. An applicant can pay an additional fee (\$4,800 for large entities and \$2,400 for small entities) to have its application considered more quickly.

As of late 2012, the USPTO had granted over 82 percent of the patent petitions filed via prioritized examination, and, of those, over 42 percent were granted on the first round of USPTO review, and issued within about one year from the date of filing. Thus, even though there may be an additional upfront cost, the savings from avoiding protracted examination (and possible appeal) would appear to outweigh the upfront fees. Use of this new examination tool provides startups with an excellent opportunity to obtain a patent within one year of filing their application.

3) More Companies Will Seek Post-Grant Reviews, Especially Financial Services Companies With Business Method Patents Being Asserted Against Them

The AIA established a transitional program for post-grant review of covered business methods, which are defined as patents related to financial services. This review procedure provides an excellent forum for financial services organizations to challenge the validity of patents asserted by nonpracticing entities.

As of Nov. 16, 14 petitions were filed for post-grant review under the covered business method transition program. The USPTO estimated that 50 petitions for covered business method would be filed per year, so the number filed to date exceeds that estimate slightly.[1]

For other types of patents, post-grant review will only be available for patents issuing on applications having an effective filing date after March 16, 2013. The new post-grant review trial proceedings at the USPTO will provide an alternative forum to attack the validity of an issued patent, but only within nine months after the patent issues. A challenger can assert nearly any grounds for its challenge, but faces an onerous estoppel provision that will preclude a validity challenge in civil litigation on the same grounds raised (or that reasonably could have been raised) during the post-grant review.

4) The Inter Partes Review Will Catch On

The AIA also created an inter partes review proceeding to replace the current inter partes re-examination. This review must be completed within one year from filing the petition (can be extended six additional months), and is conducted before a Patent Trial and Appeal Board that consists of three patent judges (not patent examiners). Inter partes review proceedings also create the same estoppel effects as post-grant review.

As of Nov. 16, there were 52 petitions for inter partes review filed and entered into the Patent Trial and Appeal Board Web portal. (More were likely were filed and denied, but 52 have entered and are currently going.) The USPTO estimated that 460 petitions for inter partes review would be filed per year, so the number filed to date is below that estimate.

While the initial numbers are lower than anticipated, this is not uncommon when the USPTO begins a new program (the same thing happened with ex parte re-examination and inter partes re-examination). Inter partes review offers a quicker and less expensive avenue to attack a patent's validity based on prior art, and the validity standard at the USPTO is lower than the standard required in district court litigation. Expect more petitions for inter partes review to be filed in the coming years.

5) The Impact of Patents on Business Will Continue to Increase

This trend was on full display during the endless news cycles covering the Apple v. Samsung patent infringement litigation (Apple Inc. v. Samsung Electronics Co. Ltd. et al., N.D. Cal. C11-1846 and C12-0630). The battle between two tech behemoths generated so much interest that the district court established a separate webpage for the case. A search on Google for "Apple v. Samsung" will retrieve over 1.5 billion hits.

When patent-related issues are finding their way onto the front page of major newspapers and onto the evening news, you know we have hit the big time. And we are there because so much is at stake in many patent cases today. Such is the case with Apple v. Samsung. This litigation spans the globe with patent infringement cases in 10 countries. In the United States, Apple prevailed at trial with a jury awarding damages of over \$1 billion. Yet at its heart this is a very traditional patent infringement dispute, invoking the fundamental right of a

patent owner to exclude others from practicing the invention at issue.

6) The Value of Patents Will Continue to Go Up

When Nortel Networks filed for bankruptcy protection in 2009, it had \$2.4 billion in cash, and \$4.5 billion in debt. But the company managed to sell its assets for \$7 billion, of which \$4.5 billion was for patents alone. Nortel's patent portfolio was sold to a consortium of technology companies including Apple, EMC Corp., Ericsson Inc., Microsoft Corp., RIM and Sony Corp. (a consortium called "Rockstar") after that group outbid Google Inc. for the prize.

Google subsequently embarked on its own patent acquisition path, paying \$12.5 billion for Motorola Mobility Inc.'s U.S. smartphone business and its patents. Google now holds one of the nation's largest patent portfolios, with an arsenal of patents to ward off competitors in the mobile phone arena.

7) Patent Acquisitions Will Increase as an Offensive and Defensive Business Strategy

While the price Google paid for Motorola's portfolio was unprecedented, its strategy is not unique. Some companies — especially those on the business end of a patent infringement lawsuit — scour their own portfolio for patents to assert against the plaintiff, and if there are few or none, sometimes enter the market seeking to purchase patents they can assert.

Many businesses with significant portfolios have established separate

business units that seek to monetize their patents through licensing. For example, IPVALUE was created in 2001 as a partnership between General Atlantic and Goldman Sachs to help global technology enterprises maximize returns from their IP portfolios. Universities also have separate technology transfer departments that handle all licensing and sales of their intellectual property. Software companies also have established separate licensing arms to tackle the copyright and patent issues associated with licensing their software to end users.

These organizations all exemplify the increasing role of patents in business. Over the past few decades, an entire market has been created for buying and selling patents. Entities such as Intellectual Ventures, for example, have been formed to acquire a large portfolio of patents to license. This company has reportedly raised over \$5.5 billion from many of the companies in the Rockstar consortium, as well as Google. According to its website, Intellectual Ventures has acquired over 70,000 IP assets of which nearly 40,000 are in active monetization programs.

A number of smaller businesses that have adopted a model similar to Intellectual Ventures are known as nonpracticing entities. NPEs have contributed significantly to the explosion in patent infringement litigation in the last 20 years. The overall success rate of NPEs at trial is about equal to that of practicing entities, but the success rate for NPEs in a jury trial are higher, for the period between 1995 and 2011.


The Pricewaterhouse Coopers 2012 patent litigation study found that damages awards for NPEs averaged more than double those for practicing entities, and almost half of the largest damages awards have gone to NPEs (although these large awards often are reversed on appeal).

These NPEs present a considerable threat to businesses, especially when the business cannot mount a counterattack with its own patents. And no business sector appears to be immune to such patent infringement lawsuits, although many of the suits arise against financial services organizations. Accordingly, regardless of business sector, a business might consider establishing a small litigation defense fund to weather the storm if faced with an NPE patent infringement suit.

8) Infringement Suits by NPEs Will Decrease

While patent acquisitions will remain a strong business objective, certain signals from the courts and at the Federal Trade Commission foretell a decrease in patent infringement suits brought by NPEs. Cisco and other plaintiffs recently claimed that an NPE who sent numerous threatening letters was effectively promulgating an extortion scheme that violates federal antiracketeering laws.^[2] Just a few days later, the Wall Street Journal reported that U.S. antitrust authorities were examining whether NPEs are disrupting competition.

The United States Court of Appeals for the Federal Circuit also recently held that Rule 11 may be violated



even where it is not clear that the lawsuit was brought only to coerce a nuisance value settlement, if the claim construction is so unreasonable that no reasonable litigant could believe it would succeed. *Raylon v. Complus Data*, slip op. at 13, (Fed. Cir. Dec. 7, 2012). The net effect of these recent events sends a clear signal to NPEs that baseless claim construction positions, as well as litigation tactics designed to coerce settlement, will not be tolerated and likely will result in sanctions against the NPE and its attorneys.

9) There Will Be Bumps in the Patent Prosecution Road

The first-inventor-to-file provisions of the AIA become effective on March 16, 2013. For all applications effectively filed after that date, and for new claims effectively filed after that date, there will be an entirely new statutory scheme upon which prior art can be applied to the pending claims. Practitioners and examiners used to the current system will undoubtedly encounter wrinkles in the new examination process that will take some time to iron out. In addition, the current director of the USPTO is resigning, leaving to the president the appointment of a new director. Assuming the new director continues the current USPTO's willingness to work with patent practitioners, the bumps in the road should not be too severe.

The patent system, either at the USPTO or in the courts, presents businesses with many obstacles and opportunities. The role that patents and other intellectual property play in business transactions is increasing every day. This article presents only a few samples of the role patents play in the business arena, and will continue to play in 2013. Businesses small and large will be well served to implement a comprehensive patent policy and strategy early on, and fine tune that policy as they grow so that they can secure all of the benefits the patent system has to offer, while at the same time minimize the damages that may accrue if faced with a patent enforcement issue, whether it be licensing or litigation.

Patrick Doody is a partner in Pillsbury's Northern Virginia office.

End Notes

[1] See Fed. Reg., Vol. 77, No. 28.

[2] The Wall Street Journal, Nov. 11, 2012.

The opinions expressed are those of the author and do not necessarily reflect the views of the firm, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.

All Content © 2003-2013, Portfolio Media, Inc.

Pillsbury Winthrop Shaw Pittman LLP | 1540 Broadway | New York, NY 10036 | 1.877.323.4171