

More change in the USA

A special roundtable examining the latest developments in the United States reveals that it has been another year of big changes in the world's most important patent marketplace

By **Joff Wild**

The patent landscape in the United States has undergone significant changes over recent years and it looks like more could be on the way. Whether it is legislative reform, major decisions from both the Court of Appeals for the Federal Circuit and the Supreme Court, or a new broom at the US Patent and Trademark Office, everywhere you look something seems to be happening that could have a major impact on the way that patents are created, managed and exploited.

To keep abreast of the latest developments and to work out what they could mean for patent owners, IAM spoke to three leading private practice patent lawyers: Douglas Cawley of McKool Smith; Toni-Junell Herbert of Patton Boggs; and Barry Schindler of Greenberg Traurig.

How would you characterise the current patent environment in the US?

Barry Schindler: I would characterise the current patent environment as being in a tremendous state of flux. We are in a whirl of new things that will result in a qualitative change in the patent landscape that will last for many years to come. First, there is the pending patent legislation in Congress. In its current form, the patent legislation, for instance, would introduce into our patent system such things as

a first-to-file regime and a post-grant review. Second, there are also significant changes in the patent office. Patent examiners have just voted for beneficial changes to a count system. The patent office is also implementing a long-desired change of having an interview with an examiner prior to a first action on the merits. Overall, the present changes at the patent office, as patent practitioners believe, are geared to and will result in improving the quality of patents. Third, the US Supreme Court decision in *In re Bilski* may have a dramatic effect. Fourth, the evolving interpretation by district courts of KSR, a recent Supreme Court decision concerning the obviousness analysis, continually changes the standard of obviousness.

Toni-Junell Herbert: We are certainly at a crossroads; at present the US system is under attack from various special interests. Since *Hatch-Waxman*, we now have industry sectors that are working to make the patent laws more favourable for their business model. Despite this, it is an interesting time in US patent law; there are a lot of issues up in the air and a lot of people, groups and government agencies paying attention and joining the fray.

Douglas Cawley: The USPTO is continuing to make it more difficult to get patents issued. The courts are continuing to make it more difficult to enforce patents. Nevertheless, the economic downturn has driven more and more patent holders to seek creative ways to monetise their IP assets.

Is it easier or harder to be a patent owner than it was, say, five years ago?

TJH: Definitely a bit harder. Since KSR, it is more difficult and costly to get the USPTO to grant a patent in the first place. Once you have

the patent, it is nearly impossible to provide notice of your patent to potential licensees without risking a declaratory judgment action. After eBay, the availability of an injunction to abate infringement is no longer a virtual certainty and the ever-changing landscape of inequitable conduct makes enforceability of your patent more of a target.

DC: It's just as easy to own patents, but harder to do anything with them. Economic conditions make it more difficult to get meaningful licensing agreements and the Supreme Court decision in *Medimmune* made it harder to conduct negotiations without triggering the ability of the target to file a declaratory judgment action. Although we've seen some major awards to patent holders in the past few years, the Federal Circuit Court of Appeals has clearly signalled that it is continuing to restrict patent rights and to bring economic reality to the courtroom.

BS: For several reasons, it is harder to be a patent owner now than it was five years ago. I agree with Toni that inventions are now scrutinised under a higher standard of obviousness based on the *KSR* case. As a direct result, the US patent office has made it more difficult to obtain improvement patents (ie, a majority of patent applications filed). Additionally, we are at a more advanced stage of economic globalisation. Today, to have adequate protection, a patent owner must seek international protection not only in Europe, but also in Asia. With the present downturn in the global economy and what appears to be a slow recovery, international protection can be a financial challenge for companies of any size. Lastly, as the patent office continues to shape its views on what is patentable, patent owners face uncertainty that often can be resolved only by incurring additional expenses.

What effect is the current downturn having on the way that companies manage their patent portfolios?

DC: Companies with IP are now forced to take a harder look at the money they devote to prosecuting and maintaining patent assets. They are also engaged in a tug of war in monetisation efforts. On the one hand, they are increasingly looking at IP assets as potential sources of revenue; but on the other, they are reluctant to spend money and are thus looking for creative ways to finance enforcement ventures.

BS: There are several major impacts. First, companies are more likely to license their core

technology. When it is done right, licensing of core technology rarely equates to a surrender of the company's crown jewels. Most companies that license their core technology also protect themselves from competition by contractually limiting the use of licensed technology to certain applications or territories.

Additionally, companies are more likely to use a licensing programme for monetising their intellectual property assets than to engage in litigation. Second, as a comprehensive global protection programme concerning a single invention may result in an expense of tens of thousands of dollars, companies have become more selective in choosing where to file. We have seen a significant decline in the number of foreign filings. Third – a very beneficial effect – business representatives are now more likely to engage in a dialogue with the company's internal and/or external patent practitioners to discuss whether an invention deserves a patent filing. Such early discussions between businesspeople and patent practitioners not only save unnecessary expenses to a company, but consequently raise the overall quality of all patents.

TJH: Obviously, companies are realigning and focusing their financial resources on the most important of their IP. Whether it is trimming existing portfolios, being more selective in what to pursue and/or divesting portfolios that are not relevant to their core business, companies are managing their portfolios more tightly and with greater scrutiny.

The Supreme Court is currently reviewing the *In re Bilski* case. Do you think that this will lead to a tightening of the business method and software patent regimes in the US?

BS: My view is that the Supreme Court will not dramatically change the law of patenting business methods. I believe that the Supreme Court will actually relax the Federal Circuit's stringent requirement of the machine-or-transformation test (ie, in order to be patentable, a business method must be at least tied to a machine or accomplish a physical transformation). The Supreme Court could well uphold the line of cases since *State Street Bank* that stands for a proposition that if a process produces a "useful, concrete and tangible" result, it is patentable. Further, the Supreme Court could give deference to Congress's intent of allowing the business methods to remain patentable after the *State Street Bank* decision. Lastly, the Supreme Court may appreciate that the Federal Circuit's standard is too restrictive to 21st century



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Barry Schindler is co-chair of the Greenberg Traurig patent prosecution group and a shareholder in its intellectual property and technology department. Mr Schindler has more than 20 years of legal experience in all aspects of intellectual property law, including multi-disciplinary litigation experience. He has helped companies of all sizes to build and manage significant patent portfolios, develop in-house procedures and formulate intellectual property strategies. He positions clients to gain a competitive advantage by identifying patentable subject matter and drafting claims in such a way that infringement becomes possible to prove. Mr Schindler has wide-ranging experience in business methodology, a rapidly emerging area of intellectual property.

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innovations. However, I believe that the Supreme Court will affirm that a purely mental process (eg, a mere abstract idea or mathematical formula) is not patentable.

TJH: My expectation is that the court will make clear the difference between abstract behaviour and ideas versus patentable subject matter, such as where a tool or computer is actually necessary or required to effect the process or method. Rather than tightening or negatively affecting the business method and software sectors, I think the decision will clarify and remove a lot of the uncertainty that has arisen since the Federal Circuit's decision in *Bilski*.

DC: I believe we are almost certain to see some tightening of the business method patent regime. Several members of the Supreme Court have already expressed scepticism about such patents and the court will probably use *Bilski* as a vehicle to restrict the scope of patents protecting ways of doing business. The court's treatment of software is more unpredictable. I think it's unlikely that the Supreme Court will go so far as to declare that software is unpatentable subject matter, and the facts of *Bilski* won't require it to decide that issue. My prediction is that the *Bilski* decision will leave the boundaries unclear as to whether a manipulation of data is a sufficient transformation to qualify as patentable subject matter.

Bilski aside, what do you consider to have been the most important patent cases decided in the US courts over the last 12 months?

TJH: The *GSK v Tafas* decision by the Federal Circuit in March and July 2009; I find that case to be important on many levels. You have a pharmaceutical company fighting back against a large, powerful government agency and arguing fundamental legal principles to support its position. That case avoided a major disruption to our patent system that would have imposed obligations and requirements making it more onerous and costly for inventors to obtain patent protection.

DC: *Lucent v Gateway* is another important one. The Federal Circuit has been indicating for some time that it intends to devote substantial attention to developing the law of patent damages. I think that *Lucent* is just the first step in this direction. The case as decided will require that future damages cases be presented with substantially more specificity than in the past, and I expect this trend to continue.

BS: Other Federal Circuit cases worth mentioning are:

- *Ariad Pharmaceuticals, MIT, and Harvard v Eli Lilly* (en banc) — the Federal Circuit granted en banc rehearing on a

scope and purpose of a written description requirement in 35 USC 112 (1st paragraph).

- *Oren Tavorly v NTP and University of Pittsburgh v Marc Hendrick* – the inventorship, which is a question of law, must be proven with clear and convincing evidence. Knowledge of invention with scientific certainty is not necessary. The standard for co-inventorship does not include activities that are due to exercise of skills expected in the art, or simply reducing to practice or adding something that is already known in the art.
- *Revolution Eyewear v Aspex Eyewear* – claims are not required to address each and every problem disclosed in specification.
- *ICU Medical* – claims must be commensurate with the disclosure in specification; that is, invalid if broader than what specification specifically limits to.
- *Leggett & Pratt v Vutek* – if all elements are found in a prior art reference, expressly or inherently, then the reference anticipates, even if it is deemed impractical. Argument that the reference is “teaching away” is irrelevant to the anticipation.
- *Net Moneyin v Verisign* – an anticipatory prior art reference must not only include all elements of a claim, but also disclose the same way that these elements are arranged or combined in the claim.
- *In re Alonso* – a single species without additional description of features that would be common to all species of a genus is not representative of the genus.

We hear a lot about patent trolls/non-practising entities operating in the US. How much of a threat do these pose to operating companies and how can it best be managed?

DC: Patent owners of any type pose a potential threat to companies that are unwilling to pay fair licensing value for IP assets. Non-practising entities pose a particular threat because they are not interested in a cross-licence of technology and typically are not threatened by counterclaims. On the other hand, after the Supreme Court’s eBay decision, there is much less likelihood that a non-practising entity will be able to obtain an injunction prohibiting an infringer from practising the technology. Obviously, the threat from non-practising entities can first be managed by making a good-faith attempt to evaluate the asserted intellectual property and to negotiate a fair licensing agreement.

TJH: I see all patentees and their monopolies as equal, and do not think any should be

denigrated or demonised. The use of the term “trolls” is to give in to a lot of orchestrated marketing by a few companies seeking to avoid the US patent system. As for non-practising entities – which any sized inventor or company can be, depending on the patent – I think this situation is best handled in the damages phase of an infringement case.

BS: Our clients in business areas which traditionally have a few patents have been inundated with demand letters and case filings from non-practising entities. For example, a clothes manufacturer of well-known brands has seen cases concerning internet commerce filed against it almost on a weekly basis. As research shows, unfortunately, it is expected that we will see a significant increase in a number of patent disputes filed by non-practising entities as the global economy exits the current downturn. Managing this threat is a formidable challenge. However, there are some strategies that may help to mitigate its impact.

First, many companies that have a more sophisticated patent approach have been proactively either buying patents which they perceive as a potential threat or becoming members of various defence alliances that strategically purchase patents that may potentially threaten their members’ businesses.

Second, internally, businesses are reassessing their approach to their own IP by better protecting core technology through obtaining broader patents and patents covering surrounding areas; engaging in strategic thinking about the future of their businesses for the next five to 10 years and filing patents that will cover these developments; challenging their own research teams to come up with non-infringing alternatives to their core patents and then protecting those alternatives where possible; and diligently monitoring patent filings in their industries and seeking a clearance opinion prior to launching a new product or service or – even more preferable – prior to incurring significant development expense.

Patent quality continues to be a major issue – what are your views on those patents now being issued by the US Patent and Trademark Office? How can patent quality be improved?

TJH: While it is true that the demands on examiners are higher than ever with less time than ever to spend examining each case, they also have more technology at their disposal to increase their searching and examining efficiency, so I do not necessarily subscribe to the notion that there has been any decrease in patent quality. Rather, the allegation of poor



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patent quality may be simply an increased awareness of patents being held invalid. Patent litigation damages awards and invalidity decisions seem to make good press.

BS: I agree. In my view, USPTO examiners do an excellent job in reviewing applications. Today, as Toni says, they have better tools to uncover relevant prior art. For example, by simply Googling core terms, examiners are apprised within seconds not only of the state of the art, but also of the best invalidating prior art, if any. With new changes to the USPTO count system, examiners will be given more time to work on an office action that will directly improve the quality of the patenting process.

I also think it is a fallacy and unfair to blame only USPTO examiners for the shortcomings in patent quality. Patent practitioners must recognise our important role in improving patent quality. Patent practitioners must work with clients, prior to a filing, to define clearly inventions and then to draft claims within that scope that make sense. In that respect, drafting a definition section (as in a contract) in the specification would substantially reduce disputes with an examiner about terms' meaning. Finally, patent practitioners should take advantage of interviews – especially interviews that precede the first office actions – to clarify their invention.

David Kappos has recently been appointed the new director of the USPTO. What do you regard as his priorities?

BS: Some of Director Kappos' priorities have already become a reality. For example, the count system has been changed so that examiners are provided with more time to work on primary filings while discouraging the practice of serial filings after final rejections such as RCEs – requests for continued examination. Director Kappos' priority is to improve the transparency of the USPTO by increasing the amount of publicly available data. His priority is also to expand the application of the accelerated examination process to cover more patent areas. I believe that harmonisation of patent regimes and close cooperation with the European Patent Office and patent offices of other countries are also priorities. Of course, the underlying themes are improving patent quality and streamlining the patent process to remedy the backlog. Director Kappos wants to change the patent office's mentality, which promoted rejections and disadvantaged allowances by focusing on the quality of rejections. He wants to improve the PTO's standing with the Bar and repair trust in

the PTO rule-making authority. In sum, the appointment of Director Kappos has definitely generated many positive expectations.

TJH: I think Barry is right about reforming the count system – by encouraging a more thorough and complete examination of the application at the earliest opportunity, this increases the efficiency of the examination process. I would add that another priority should be addressing the fee diversion issue so as to maintain the financial independence of the USPTO without further increasing the cost of obtaining patents to the applicants.

Is the proposed patent reform legislation currently before Congress desirable?

DC: No. This proposed legislation has been driven by major IT companies and has largely been opposed by pharmaceutical companies and many other technology interests. Probably the most significant of the current proposals – the conversion of the US patent system from first to invent to first to file – would be a disruption in the US intellectual property scheme and could have unforeseeable consequences in the enforcement of patent rights during the transition. Many of the provisions in the current bill – notably on damages and venue reform – are already being addressed by the courts, so legislative reform is unnecessary. A few of the provisions, such as interlocutory appeal of a lower court's construction of terms of the patent, could greatly increase the expense and time devoted to patent litigation and are undesirable.

TJH: Doug is right. This legislation is not reform; rather, it changes the law dramatically to benefit a small sector of the US economy. It also dramatically lengthens the process of obtaining clear patents by creating an opportunity for large entities to challenge a patent even after it has been issued. It adds complication and cost to a system that is already lengthy and expensive. I also believe that changing to a first-to-file system would promote harmonisation over fairness and would be in conflict with the US Constitution. In the US, we have a very stable system of jurisprudence. Specifically, the creation of the Federal Circuit in 1982 resulted in the largest growth and economic inversion in US history, where the portion of a company's assets residing in intangible assets and tangible assets reversed. NED Davis research showed that intangible value as a percentage of market value has grown from 16.8% in 1975 to 79.7% in 2005. I believe it would be unwise to make dramatic changes to any area of a sound legal

system, but especially to an area such as patent law which is so critical to our country's economic stability.

BS: I have to disagree with my colleagues. Overall, I would say that yes, reform is desirable. The first-to-file rule is an important step in harmonising the US patent system with the patent regimes of other countries; however, businesses must recognise the value in provisional applications and use them to secure an earlier invention date. I agree with the proposed wilfulness standard that allows for treble damages only if intentional copying is shown by clear and convincing evidence. The proposed post-grant review would be very effective as long as the law set a time limit of no more than one year in which a resolution must be reached; a patent owner could lose valuable patent term time if the post-grant review were to stretch for several years. Because almost 50% of claim construction rulings are overturned by the Federal Circuit, having an opportunity for an interlocutory appeal of Markman decisions is very beneficial and will lead to considerable savings in litigation expenses. Also beneficial are proposed changes to the venue requirements that target the practice of forum shopping by non-practising entities.

How do you see the US patent environment developing over the next five years?

TJH: I think you will see a maturing and refinement in the appreciation and application of the patent system, and its relationship and interaction with the economy. Courts will be focusing more on damages and handling of reasonable royalties; specifically, I think you will see a broader appreciation of the economic way that remedy systems interact. Hopefully, we will see an infusion of economic fundamentals and policy arguments into damages and remedy considerations.

BS: The patent landscape as we knew it even a couple years ago will significantly evolve. As we have discussed, substantial changes in the law and the patent process either have already occurred or will certainly happen within the next five years. In summary, those developments at least include the major reforms occurring at the USPTO; the proposed patent legislation in Congress; and a number of Federal Circuit and Supreme Court decisions, including the latter's current consideration of *Bilski*.

Another important development is that courts have become more eager to invalidate

patents based on a defence of indefiniteness by holding, in those cases, that the specification did not provide meaningful guidance to define the scope and meaning of claim terms. This new development further reinforces my comments that patents must be written as contracts and thus must include a section that specifically defines claim terms.

In total, my view is that these changes will make the US patent system more formidable and will translate into preserving the US's inventive dominance and competitive position in the world economy.

DC: I believe the trend of tightening the standards of patent issuance will continue, as will the trend of the courts to require higher standards of proof for patent damages and greater ease of finding a patent invalid. Nevertheless, the most important activity of US business over the next five years will continue to be innovation and intellectual property law protects that asset. As a result, I think that patent rights will continue to be important, and that the enforcement of those rights will continue to be the most active area of litigation in the US. ■