

LICENSING EXECUTIVES SOCIETY NEWS SYNOPSES/ARTICLES

December, 2012



Established in 1965 by Dudley B. Smith, a Licensing Coordinator for Celanese Corporation in New York; and Dan Stice, Patent Counsel for 3-M in Minneapolis, these two gentlemen were in dire need of a more structured means of communicating their technology transfer and licensing ideas and issues with not only each other, but with others engaged in the technology transfer process. The **Licensing Executives Society (LES)** these two gentlemen formed 46 years ago has grown from a two- to a 12,000-member international group that convenes solely to exchange ideas and assist and encourage others who are

either in the business of licensing, or would like to learn more about the licensing activity.

The Harrison Group, LLC, is a member of the Industry, University, and Government (IUGI) Sector of LES and is able to glean powerful and informative data from the transfer, use, development and marketing of intellectual property through the LES organization's "**LES Insights**" weekly executive summaries.

We hope you, as well, become better informed about the technology commercialization process and benefit from the following synopses selected by THG from LES' "**LES Insights**" weekly tech transfer news summaries.

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- See a Summary of The America Invents Act + THG Analysis – pages seven and eight.
 - IMPORTANT SUPREME COURT PATENT DECISION: "Bilski for Business: A Conversation about What the Supreme Court's Landmark Patent Decision Means for Business People and Innovators" – pages nine and ten.

Congress Looks to Stop U.S. R&D From Landing in Other Countries

CIO (12/06/12) Corbin, Kenneth

The U.S. invested an estimated \$436 billion in research and development this year, with federal funds accounting for well over a fourth of the total, and congressional lawmakers recently held a hearing to discuss how to keep the benefits of that investment within the country. "While the U.S. invests significant taxpayer resources in public- [and] private-sector research and development, other nations remain dedicated to acquiring the fruits of our labor," says Rep. Paul Broun (R-Ga.). Experts at the hearing noted that although technology transfers could happen as a result of piracy and corporate espionage, they are increasingly coming in the form of licensing agreements or foreign acquisitions of U.S. firms. Information Technology and Innovation Foundation president Robert Atkinson noted that in order to gain access to new Chinese markets, many U.S. firms are forced to enter partnerships with Chinese companies that make it easy for them to acquire U.S. intellectual property. To combat this, Atkinson suggests a limited joint antitrust exemption that would allow industry rivals to engage in agreements rejecting exploitative and coercive terms when negotiating such deals with foreign governments. Atkinson said the U.S. also should pursue similar agreements at a higher level with its allies, such as Japan and the European Union, which are in a similar position.

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Tech Firms Dominate Reuters' List of Top 100 Innovators in 2012

Network World (12/04/12) Curtis, Sophie

Eighteen of the top 100 companies on Thomas Reuters' recently released 2012 list of the World's Top 100 Most Innovative Organizations come from the semiconductor industry, including AMD, Intel, Qualcomm, TE Connectivity, SanDisk, and Texas Instruments. "That is not to say, however, that other industries are not also innovating," says Thomson Reuters' David Brown. The U.S. had 47 companies on the list, while Asia, Japan, Europe, and South Korea had 32, 25, 21, and seven companies on the list, respectively. The methodology used to create the list is based on overall patent volume, patent grant success rate, global reach of the portfolio, and patent influence as evidenced by citations. "Our Top 100 Global Innovator methodology demonstrates the insight that can be gleaned from the analysis of patent data and confirms the fact that companies focused on innovating drive growth and financial success," Brown says.

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Apple-Google Team Up for \$500 Million-Plus Kodak Patents Bid

Bloomberg (12/08/12) Saitto, Serena; Jinks, Beth; Womack, Brian

Apple and Google reportedly are part of a group of bidders that has offered Eastman Kodak Co. more than \$500 million for a patent portfolio of digital technologies. Although a deal has not officially been reached, the bid puts Kodak one step closer to financing that could help it get out of bankruptcy. This past summer Apple and Google led separate groups that sought to buy some of Kodak's 1,100 imaging patents, but their offers were deemed too low. Sources say that by combining the groups can offer more together. Apple's group reportedly includes Microsoft and Intellectual Ventures, while Google's group reportedly includes RPX Corp. and several Asian makers of Android smartphones. Analysts say the unlikely partnerships are not unusual in patent sales since they enable competitors to neutralize possible patent litigation. Analysts note that although the \$500 million bid is significant, Kodak has said that its patents could be worth up to \$2.6 billion. Kodak notes it has generated more than \$3 billion licensing the patents. However, IP Offerings president Richard Ehrlickman says "the portfolio is actually worth much less because it has been widely licensed."

US FTC Opposes Product Bans Over Standards Patents in Apple-Motorola Dispute

IDG News Service (12/06/12) Ribeiro, John

The Federal Trade Commission (FTC) has opposed placing bans on the sale of products that include standardized, patented technology. This pertains to when patent holders previously commit to license the patent on fair and reasonable terms. The FTC says it has filed its amicus curiae brief in the U.S. Court of Appeals for the Federal Circuit, which backs an order by an Illinois district court. Last June the district court dismissed Motorola's request for an injunction that could have prohibited Apple from selling iPhones and iPads in the United States. Judge Richard Posner dismissed patent infringement suits brought by Apple and Motorola, and both companies appealed the order. The FTC previously said that interoperability standards can create significant value for consumers, but once a standard is implemented, it becomes difficult to change a technology in the standard without affecting interoperability. This would enable holders of standards-essential patent to seek compensation based on the costs and delays of switching away from the standards technology rather than on the value of its invention. In addition, placing patented technologies into standards could potentially hurt competition by allowing owners of standards-essential patents to negotiate high royalty rates and other favorable terms after a standard is adopted. However, when the parties cannot agree on the terms of the license, the FTC recommends that relief provided the patent holder be restricted to only monetary damages.

China's Patent Filings Grow More than 20% a Year

EE Times Asia (11/29/12) Yoshida, Junko

The *Financial Times* recently reported a rapid rise in Chinese patent filings, which have been growing at a rate of more than 20 percent a year. Analysts say the patent surge reflects China's changing attitudes toward intellectual property, although the country's patent protection system remains problematic. Nevertheless, the growth in Chinese patent filings is likely to affect foreign companies that may have been reluctant to file for patents in China. Chinese-based companies are "transitioning from low-cost manufacture of discrete parts to long-term market competitors, both in China and around the globe," according to a recent UBM *TechInsights* report. For example, the U.S. continues to lead the list of total semiconductor patents granted with 40 percent of the total, while Japan is second with 10.7 percent and China is ranked 16th, with 623 patents granted, according to U.S. Patent and Trademark Office data. The top three Chinese patent holders are Beijing Vimicro Co., Spreadtrum Communications, and Shenzhen Zhongxing Microelectronics.

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Women's Participation in Information Technology Patenting, 2012 Update

National Center for Women & Information Technology (07/19/12)

The National Center for Women & Information Technology recently released its updated report on female information technology (IT) patenting, which examines how female participation in IT patenting has evolved over the past 30 years. The report found that from 1980-2010, 6.1 percent of all U.S.-invented patents were invented by female inventors. However, about 65 percent of all patents were produced by teams of one or two men during the same period, according to the report. Although the total percentage of women participating in IT patents is still relatively low, it has been rising. Women held just 2 percent of all IT patents in 1980, but that percentage increased to 6 percent in 2005 and 8 percent in 2010, despite the fact that women's participation in IT occupations has fallen since the 1990s. The report also notes that patenting patterns vary depending on the organization. For example, 20 percent to 30 percent of the patents produced by several companies named at least one female inventor, while for some

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companies less than 5 percent of their patents named a female inventor. The report suggests that individual organizational environments can influence female patenting patterns.

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Companies Need Separate China IP Strategy

ZDNet (08/01/12) Kwang, Kevin

Foreign technology firms seeking to penetrate the Chinese market must be familiar with the Chinese patent regime's complexities and the efficacy of filing distinct types of patents to better protect their intellectual property rights. Attorney Albert Wai-Kit Chan says they should set up a separate Chinese IP strategy from their global one. Chan says foreign companies operating in China tend to concentrate on their core technologies, which can be interpreted as intimidation by Chinese authorities, leading to a longer investigation of the patent application or its rejection. He notes China has embraced the framework of two primary kinds of patents: the utility model (UM) patent and the invention patent. The latter is more comprehensive and covers the owner's rights for a longer time, while the former concerns prototype shape and form rather than function, is easier to acquire, and usually lasts for a decade. Chan says UM patents are valid and enforceable in China, and thus should form a central component of any company's IP protection strategy. He also advises companies to apply for invention patents to set up more comprehensive, long-term protection.

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Indian Patenting System Needs to Improve Processing Time: WIPO

Press Trust of India (07/27/12)

The World Intellectual Property Organization says the Indian patenting system needs to increase its processing time so that applicants receive benefits more quickly. "Our system needs to be faster, more modern, and more efficient," says WIPO executive director N N Prasad. He says the biggest challenge is to modernize the Indian system so that extensive searches of both domestic and international patents can be completed more efficiently before granting a patent. "Patents must have industrial applicability," Prasad stresses. "Patents must be given in time, so that patent holders can benefit from it." However, he notes the current Indian system is improving in terms of the number of applications for patents and approvals. Prasad reports that previously 90 percent of applications were from foreign firms and 10 percent were made by Indian companies. However, he says domestic Indian companies now account for about 30 percent of patent applications, versus 70 percent from international companies.

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Congress Debates Changing Auto Patents. Good News or Bad?

Christian Science Monitor (08/02/12) Read, Richard

Rep. Darrell Issa (R-Calif.) recently presented a bill to the House Judiciary Committee that would significantly reduce the length of patents in the automotive industry. Patents for auto design and collision-repair parts currently last for 14 years, but Issa's proposal would make those patents valid for just 30 months. Issa says the changes to the patent law would protect car owners by allowing other companies to produce less expensive repair parts sooner. He notes that car parts can be as much as 50 percent more expensive when they come from an automaker. Issa says automakers currently control about 72 percent of the collision parts market. However, automakers say Issa's proposal greatly devalues intellectual property and undermines the economic incentive for designing parts.

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Can the U.S. Patent System Be Saved?

Computerworld (07/19/12) Smith, Gina

Patent experts are warning that the U.S. patent system is set up to benefit large, well-funded companies over individual inventors and smaller companies. A recent report by the U.S. Patent and Trademark Office said that about two-thirds of the 2 million patents that are currently active are in the technology field. "Some of these IT companies have more patents individually than do entire industries," notes former USPTO examiner Erin-Michael Gill. Patent attorney Tom Ewing observes that "whether it's filing huge numbers of patent applications, or aggressively licensing baskets of patents, or even defending yourself appropriately in just one patent lawsuit, the patent system has become to a large extent the sport of kings." Experts also say the new patent rules do not sufficiently address the proliferation of large patent trolls and the vulnerability of universities and other noncommercial entities to litigation. Some say many patents are overly broad or overlap other patents, thereby hampering innovation. The Electronic Frontier Foundation's Julie Samuels believes policy makers should take action to make it harder for litigious patent owners to threaten people that innovate.

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U.S. Lawmakers: Are Patent Holders Abusing USITC Process?

IDG News Service (07/18/12) Gross, Grant

Lawmakers in the U.S. House of Representatives Judiciary Committee are concerned about the number of patent complaints being filed at the U.S. International Trade Commission (USITC) in recent years. They fear that patent-licensing firms are abusing the USITC's section 337 patent complaint process, which is intended to protect U.S. companies against foreign entities that sell infringing products inside the country. At a hearing before the committee's intellectual property subcommittee, Santa Clara University law professor Colleen Chien said the process is being used adversely against U.S. companies. Chien notes that over the past 18 months, patent-owning firms have been launching infringement cases against more than 330 defendants at the USITC, with more than 60 percent of the defendants comprising U.S. companies. Rep. Mel Watt (D-N.C.) suggested that Congress or the USITC form a process for disciplining companies that bring unwarranted patent cases before the agency. Cisco's Neal Rubin urged Congress to limit the ability of nonpracticing patent holders to bring cases at the USITC.

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U.S. Venture Investors Back on Board With Research Commercialization

Science Insider (07/17/12) Mervis, Jeffrey

Venture capitalists are once again focusing on U.S. research-based startup companies, according to a new report from the National Science Foundation's National Science Board. Private investment in startups declined significantly after the 2008 recession, the board notes in a white paper. "But we have begun to see some recovery," says report co-author Arthur Reilly. He observes that investors are still reluctant to take large risks in companies with no track record, and that spending on such seed investments has not recovered from its 2007-2008 levels. But that category represents less than 5 percent of the total amount of venture capital investments. Investments in slightly more mature companies, labeled "early stage," are up 70 percent in the past two years. Separately, recent data shows a 45 percent increase in overall U.S. venture capital between 2009 and 2011. The \$29.1 billion invested in 2011 is the highest total since 2007, when investors steered \$31.8 billion into science and technology enterprises. The \$20.1 billion invested in 2009 was the lowest amount since 2003.

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Strengthening the Link Between Industry and University Research

Forbes (07/16/12) Bagley, Rebecca O.

It is essential to remove the hurdles that exist between industry and universities to accelerate the tech transfer process, writes NorTech CEO Rebecca O. Bagley. For example, before launching a technology transfer project, both sides should form a foundation of shared purposes, values, goals, and expectations. This involves clearly defining and communicating the purposes associated with the collaboration. The majority of successful collaborations are based on long-term and regional relationships. Some difficulties stem from the actual match-making process. For instance, universities that seek to achieve technology transfer often are unaware of where to look for companies that need particular technologies. Finding the specific know-how and/or areas of excellence on campus also can be challenging for companies. Companies also find they have to go back to basics for every new project or collaboration, even with the same university. "To help move more innovations from the lab to marketplace, we must make it easier for companies to engage and collaborate with academic institutions," says John Hillenbrand, co-chair of the industry subcommittee for the Tech Transfer and Commercialization Task Force created by the Ohio Board of Regents. "Universities need to create stronger connections with industry to enable the effective transfer of innovative technologies and product concepts that will translate into private sector business growth, job creation and overall economic impact."

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6 Ways to Work More Effectively in the U.S. Patent System

By *Elizabeth Hampton* [Contact All Articles](#)

Corporate Counsel

July 12, 2012

Cheryl Milone

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In a summit hosted in Napa Valley by patent research company Article One Partners late last year, 36 senior executives from more than 20 IP companies gathered to share their views on key issues in the global patent industry. While the participants agreed that patents threats are on the rise, they were also able to pinpoint some viable solutions to some of the IP-related problems facing U.S. companies.

In a new report documenting the findings of the summit, attendees—which included 10 of the top 30 targets for non-practicing entities (NPEs, aka, “patent trolls”)—indicated a 22 percent increase in NPE litigation. Of the companies that participated in the summit, more than one-third have 50 or more active IP litigation matters, and 75 percent of all litigation involving participants were NPE suits.

“There is recognition of the value of patents as an asset class,” says Article One founder and CEO Cheryl Milone of the increase. “It’s coming from patent acquisition levels—for example, what we saw with Nortel (\$4.5 billion) and Motorola (\$12.5 billion), and the fact that the return NPES are achieving is notable. Also, the companies that are defending these litigations are seeing the kind of returns the plaintiffs are getting, so it’s difficult not to participate within a valuable return area of the industry.”

For companies and in-house attorneys, all of this can end up being very costly. [A recent study completed at Boston University School of Law](#) concluded that the cost of defending against patent trolls in 2011 total \$29 billion in the U.S. And, according to the participants of the Article One’s Napa Summit, a single NPE lawsuit can cost a company an average of \$1.1 million.

Given these and other statistics that indicate that litigation related to patent matters may be on the rise, participants at the Article One summit generated six significant takeaways for working more effectively, and efficiently, within the legal framework of the U.S. patent system:

1. Reduce the costs of litigation defense through collaboration.

Summit participants agreed that collaborating in joint defense groups (JDGs) and using shared co-counsel was an effective method of managing costs and deterring nuisance lawsuits. Sixty-seven percent of those surveyed said that collaboration has been effective in reducing cost (some large companies claim to have reduced their baseline estimates for defense cost to \$500,000, or less) and 57 percent said that that collaboration yields a more favorable outcome.

2. Make collaboration industry-efficient.

Participants found that industry insight was necessary to optimize the effectiveness of JDGs and therefore,

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collaborating with in-house counsel was critical. Additionally, the summit attendees agreed that collaboration could be enhanced by assigning JDG project managers, forming steering committees to supervise JDGs, and/or creating a joint defense checklist to monitor the process.

3. Leverage the patent reexamination process.

According to data provided by the participants, working with the U.S. Patent and Trademark Office to issue reexaminations successfully narrowed amendments or eliminated claims an average of 68 percent of the time. To that end, Milone adds, "Having the best quality and information in the life cycle of a patent will provide the most number of opportunities for the patent owner. And the earlier a company can defend or deter patents by determining them to be of low quality and taking action to reduce the risk of them, the better those sources can direct resources to innovation instead of litigation."

4. Deter future litigation by engaging senior leadership.

According to the summit's attendees, companies allocated an average of 17 percent of their IP budget to pre-litigation and litigation-avoidance strategies. It was agreed that implementing strategies to defend—not settle—nuisance claims would curb the instances of NPE litigation and therefore cut costs.

5. Engage with the America Invents Act.

While many of the participants in the summit were reticent to predict the impact of the America Invents Act, which was signed into law by President Barack Obama on September 16, 2011, companies indicated that they would make changes in IP-related strategies, including utilizing post-grant proceedings, filing more quickly to take advantage of the "first to file" provision, requesting priority examination for certain technologies, utilizing more reexaminations, filing more provisional applications, and strengthening their patents post-issuance.

6. Leverage data content and thirty-party services.

Finally, participants recognized the increasingly important relationship between data sets and patent valuation, litigation strategy, risk management, and investment, and therefore found that working with third-party advisory sources could be useful in defending against NPEs and avoiding litigation.

Top 20 Biotech Licensing Deals in H1 2012

FierceBiotech (07/10/12) Carroll, John D.

Deloitte Recap had counted \$8.8 billion in licensing deals in the first half of 2012, with announced biotech milestones at \$6.4 billion, down from \$13.6 billion in total deal sizes for the same period in 2011. However, in late June, AstraZeneca's \$3.5 billion pact with Bristol-Myers Squibb over the diabetes drugs BMS is getting from its \$7 billion buyout of Amylin helped push the final total for the first six months of the year to \$12.5 billion. Nevertheless, beyond the AstraZeneca deal, the next 20 biggest deals of 2012 resulted in a total of just \$130 million. "I think deals are getting smaller, but most of that hit came out of milestone events," says Deloitte analyst Chris Dokomajilar. He says pharmaceutical companies are now much more aware of how much they are committing to deals, and biotech companies are willing to give up more on the back end in order to get more upfront. Dokomajilar does not expect a

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shift in the deal trend anytime soon, as he says the numbers in this buyer's market reflect the "back-to-reality" school of pacts.

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Maximizing the Value of Corporate Intellectual Property Rights Following Enactment of the America Invents Act

By Janet M. MacLeod, Ph.D., Attorney at Law, Fox Rothschild LLP

The landmark patent reform signed into law by President Obama on September 16, 2011 creates a host of issues that require new strategies and practices for licensing professionals. At the LES Spring Meeting on May 16, 2012, a panel of professionals discussed considerations for "Maximizing the Value of Corporate Intellectual Property Rights Following Enactment of the America Invents Act."

Although many provisions of the America Invents Act (AIA) have already been implemented, key provisions become effective on September 16, 2012 and March 16, 2013. For example, the effective date of the fundamental change from a "first-to-invent" system to a "first-inventor-to-file" system in the United States is March 16, 2013. Under the new system, the current interference practice is eliminated, and an applicant can no longer "swear behind" a prior art reference by proving an earlier date of invention. Also, the pool of potentially patent-defeating prior art is expanded under the new statute.

[Read article.](#)

New Patent Office Fighting Tech Giants for Talent

Wired News (07/02/12) Wohlsen, Marcus

Silicon Valley, Calif., is one of four areas that will soon have a regional U.S. Patent and Trademark Office, and the challenge will be how to attract and retain qualified patent examiners in what the agency describes as "a hyper-competitive market" for high-tech workers. The region currently registers nearly 50 percent of patent applications coming from California and about 12 percent of the U.S.'s total, according to a recent survey. Proponents say that bringing the application process closer to the area will encourage more meaningful patents being granted by knowledgeable examiners. Silicon Valley Leadership Group CEO Carl Guardino expects the patent office in San Jose will employ 150 to 250 examiners. The city's proposal for a new office points out that although entry-level patent officers earn less than \$61,000, benefits will help make up the difference. Mid-level patent examiner salaries typically surpass \$100,000, which is a competitive rate for engineers with a similar level of experience, according to state and federal data cited in the city's proposal. The San Francisco Bay area boasts a large pool of talent, with engineers comprising about 4 percent of its workforce, or nearly 161,000 people, San Jose officials note.

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Switzerland, Sweden Are World's Most Innovative Countries

Bloomberg (07/03/12) Freedman, Jennifer M.

Switzerland, Sweden, and Singapore are the world's most innovative countries, according to a study by the U.N. World Intellectual Property Organization and Insead. The Global Innovation Index 2012 ranked 141 economies, taking into account factors such as patents, software, human capital, research, infrastructure, and market and business sophistication. "Policies to promote innovation are critical to the debate on spurring sustainable economic growth," says WIPO director general Francis Gurry. Finland ranked fourth, followed by the United Kingdom, the Netherlands, Denmark, Hong Kong, Ireland, and the United States. Brazil, Russia, India, and China (BRIC), the four largest emerging markets, should invest further in their innovation capabilities, the report says. Although China ranked fifth in terms of knowledge and technology outputs, both China and India face vulnerabilities in their innovation infrastructure and environment, the study notes. Brazil's ranking dropped the most among the BRIC nations. Canada, which ranked eighth a year ago, was the only country to exit the top 10.

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A Summary of the America Invents Act

On September 16, 2011, President Obama signed into law the "America Invents Act," which makes sweeping changes to the U. S. patent system. Congress's primary goals were to further enhance opportunities for innovation and entrepreneurial investment, to better harmonize U. S. patent laws with those of other countries, and to streamline patent office procedures. Over the next 18 months, the U. S. patent laws will change so that by the spring of 2013,

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there will be new issues and new proceedings for patent practitioners, inventors and businesses to consider. The most important of these new issues and procedures are:

Moving to a “first-to-file” system:

The United States has always had a “first-to-invent” system, meaning that deciding whether an invention was new or not obvious involved determining the state of the art at the time the invention was conceived, not at the time the application was filed. Most other patent systems around the world consider the state of the art when the application was filed. The America Invents Act changes the U. S. system to likewise require that applications be examined against prior art dated before an application’s filing date (with some exceptions for inventor disclosures). The date of invention will no longer be relevant in determining what is prior art against future applications.

Assignee prosecution opportunities:

Traditionally, a patent application is filed on behalf of an inventor, and the resulting patent is issued in the inventor’s name. Inventors can assign (e.g. sell or transfer) their patent rights to a third party such as a business or another person, for example the inventor’s employer. Traditionally these third parties (assignees) could move the application through the Patent Office with certain authorizations from the inventor. The new law still requires the original inventor be identified. However, if the inventor is required to assign the invention to a third party, the assignment can authorize the third party to take control the application as it moves through the Patent Office. The resulting patent would issue in the third party’s name.

Personal infringement defense based on prior use.

The act provides a broader “prior use” defense, for use in cases in which a business is using a process or machine as part of a process, and has been doing so for more than one year prior to the effective filing date of a patent that would cover the process or machine. The defense is personal to the user, and can only be transferred with the business to which the process or machine relates. The defense addresses situations in which private first-users have been accused of infringement of another’s later-filed patent, where the non-public first use cannot be used to invalidate the patent.

Post-grant review of patents.:

Perhaps the most anticipated aspect of the new act creates proceedings in the Patent Office to challenge issued patents. Two separate proceedings are created by the new law: An “inter partes” review and a “post-grant” review. The “inter partes” review permits allegations of invalidity over prior art. The “post-grant” review permits allegations of invalidity on any ground in the statute, and must be filed within nine months of the patent’s issuance. The Patent Office will be creating rules to govern these procedures in the coming months.

Supplemental examination:

The act provides a procedure for supplemental examination of a patent by the owner. The supplemental examination is not a re-examination. However, if the Patent Office discovers a substantial new question of patentability during a supplemental examination, a re-examination will be ordered using the current re-examination procedure. A supplemental examination can be used to “cure” what might be inequitable conduct in the original prosecution, if the previously unconsidered or incorrect information was considered or corrected in the supplemental examination.

Filing fees:

In addition to the existing large entity and small entity patent fees, the act creates a “micro entity” fee structure, which will most commonly be used by independent inventors. A “micro entity” is any small entity that has filed no more than four applications, and has an income that is less than certain specified limits. Micro entities are charged significantly lower fees that are only 25% of the large entity fee (i.e. \$250 for filing, examination and search fees).

Other provisions remove the ability to invalidate a claim or patent based on failing to disclose the best mode of carrying out the invention, permit “virtual” marking of a patent number, limit suits based on claims of false patent marking, and codify the principle that failure to obtain, or choosing not to disclose, advice of counsel cannot be used to prove willful infringement.

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Most of these provisions will take effect within the next 18 months, although some will take effect immediately. Regardless, it is not too early to consider how these sweeping changes to the U. S. patent system will affect your innovation strategies and business practices.

THG Analysis of America Invents Act:

First-to-file seems to reward companies with large resources to file, which could result in a larger amount of smaller companies and inventors publishing, instead of patenting/licensing, in order to protect their inventions. This appears to make things more difficult for those without a legal team at their disposal. Paradoxically, larger, slower-moving companies may be less able/inclined to offer disruptive solutions in the marketplace.

Finally, the prioritized examinations is another area of concern, since the small company/inventor may not make the list due to a lack of allocated space (10,000 slots) or available funds at the time.

Bilski for Business: A Conversation about What the Supreme Court's Landmark Patent Decision Means for Business People and Innovators

By Erika H. Arner, Partner, Finnegan, Henderson, Farabow, Garrett & Dunner, LLP

1. What is the *Bilski* case really about?

The *Bilski* case started as a patent application. Bernard Bilski is an inventor who worked for a power company. In the 1990s, he and a co-worker, Rand Warsaw, invented a new way to sell energy to customers to minimize the risk from weather fluctuations. They filed a patent application at the U.S. Patent and Trademark Office. The Patent Office rejected their application, saying that their method for hedging the risk in energy transactions was not eligible for patenting. Bilski appealed to an intermediate court called the Court of Appeals for the Federal Circuit and that court agreed with the Patent Office that Bilski's invention was not eligible for patenting. But the Federal Circuit's decision went further, holding that every process must either be tied to a machine or transform articles in order to be eligible for patenting, no matter the technology area. This is called the "machine or transformation" test.

Bilski asked the Supreme Court to reverse the Federal Circuit's broad ruling and that's just what they did in June. The Supreme Court ruled that the "machine or transformation" requirement is too limiting and that the patent law is broader. They agreed that Bilski's claims were not eligible for patenting, but they disagreed with lower court's narrow approach to patentable subject matter.

2. What did the Supreme Court actually decide?

The *Bilski* case presented two questions to the Supreme Court, and they answered both in a very positive way for the patent community. The first holding was that a process can be patentable even if it's not tied to a particular machine and it does not transform articles. So, the limiting "machine or transformation" test that the lower court had adopted is not the only test for patentable processes.

The second question was whether business methods can be excluded from patenting simply because they are business methods, and the Court said no. The Court held that although Bilski's business method claims were not eligible, there may be business methods that can be patented, provided they are new and non-obvious and meet the other requirement is the Patent Act. So, that was a very positive outcome for innovators in business today.

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3. What is a business method patent?

There isn't an agreed upon, simple answer to this question. Really, a "business method" is just that: it's a way of doing or conducting business. For example, it could be a way to process credit card transactions, a way to manage customer data, or a way to organize a global supply chain. That's something different from a "business method patent," because when you add the word patent it's not just a way of doing business, but it must be something new that has never been done before, never been described publicly. So business method patents are at the cutting edge of where business innovation is happening. It is a very high burden to show that a business method, or any invention, is worthy of a patent.

4. What kind of companies should be pursuing business method patents?

Patents give a competitive advantage. A patent is a limited monopoly that the government grants to an inventor. The patent owner can prevent competitors from using the patented invention, so when a company considers whether to apply for a patent it should consider whether the benefit of the competitive advantage would outweigh any risk from disclosing the invention.

Much of today's innovation happens at the intersection of business and technology, when companies solve problems like how to organize a multinational organization, how to conduct secure online transactions, and how to communicate with consumers in today's 24/7 digital marketplace. When a company develops innovative solutions to these kinds of business problems, patents can provide strong protection and a competitive edge. Patents may also provide a way to license these innovative technologies to others and to monetize the hard work done to develop these new systems. So, the fundamental reasons to get a patent apply in business just as much as they apply in any other technology area.

5. How does the *Bilski* case affect computer software and other technology areas?

This was a big question before the Supreme Court's decision came out. In today's economy, many processes have little or nothing to do with particular physical machines—for example, computer software, linear programming, digital signal processing, diagnostic methods, and methods of treating diseases. Innovators in many of these fields worried that the machine or transformation test would restrict patenting in these areas. The Supreme Court specifically mentioned some of these technologies and explained that the machine or transformation requirement may not work in these cases. The Court noted that times have changed and the patent laws need to adapt to protect cutting edge technologies.

Rather than a particular machine or transformation, the Court ruled that patents are available to any process in any technology area, as long as it wouldn't patent an abstract idea, law of nature, or physical phenomenon.

6. What is a patent-ineligible "abstract idea?"

Everyone agrees that you can't patent an abstract idea, law of nature, or physical phenomena, either because these are not new or because they are the building blocks of innovation available to everyone.

An example of an abstract idea is a mathematical formula, which is not patentable. Of course, no one files a patent application that just has a mathematical formula and nothing else. So the challenge is deciding when an invention uses math, or some other abstract idea, in a patentable way. For example, an invention might apply a mathematical formula to process image data to better display it on a mobile device. While some math is involved, the question is whether the inventor is trying to patent the math itself or just one application of the math, in this case image processing for a mobile device. The courts have said this can be patentable as long as the abstract idea is applied in a particular way.

We expect to receive more guidance in the coming months from the Patent Office and courts. There are many cases pending right now that involve the issue of what can be patented. These decisions will likely give some specific examples of how *Bilski* applies in the areas like computer software, diagnostics, and biotechnology and help define the boundaries of an unpatentable abstract idea.