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Top Lawyers on Trends and Key Strategies for the Upcoming Year
The Brave New World of Patents: The Impact of the AIA and Recent Case Law

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Introduction

For those of us who have grown up with the concept that the patent laws of the United States have allowed this country to maintain its status as a dominant and pervasive technological force in the world, the Leahy-Smith America Invents Act (AIA) offers both opportunities and constraints that need to be reviewed in depth. While “harmonizing” of global patent laws has been part of the agenda since the Patent Cooperation Treaty was enacted, there has not been a set of legislative changes as impactful as the AIA on day-to-day life in the patent trenches in recent memory.

Owing to the depth and complexity of these changes, it is respectfully submitted that a perusal of both the principle changes and the exceptions created by the AIA is in order. Given the need to incorporate and utilize the new tools the law now provides, one can hope that merely framing significant issues will provide enough food for thought to recognize the major transitions that are now well underway.

The Impact of the AIA

In my view, the passage of the AIA represents the biggest change we have seen in the intellectual property (IP) area over the past year. This act represents a major paradigm shift in the day-to-day practice of patent law. Many of the changes it brings are overtly positive, in that they are ultimately going to create a lot more transparency and visibility with respect to the way the patent system works in the United States. By March 16, 2013, one’s domestic patent rights shall depend on who first files their respective application with the US Patent and Trademark Office (PTO). Likewise, applications and patents shall now be able to be challenged in different ways at the PTO, “derivation proceedings” will be able to correct inventorship, and both “post-grant review” and “inter partes review” shall become part of the working vocabulary of those involved with patents (as opposed to remaining solely within the arsenal of a small group of specialists).

In addition, these changes are going to provide greater opportunities for people to do forward-looking business planning based upon the reality of patent law, as opposed to strategies that are much more speculative. By way
of example, as of September 16, 2012, patent owners shall be able to request that the PTO conduct a supplemental examination of their patents. This shall allow those who work with the new law to potentially eliminate issues that could affect enforceability later in federal district courts.

Essentially, I view the AIA as an overwhelming change that is going to make our patent system even more predictable, more important as a business planning tool than it was in the past. It will take high-stakes patent litigation out of the backrooms and bring it into venues where people can finally understand how patent litigation decisions are made, how settlement strategies are created, and what patents really stand for—as opposed to speculating about what the value of patents could be.

I am a transactional patent attorney. Therefore, my day-to-day practice involves developing patenting strategies for everything from consumer products and medical devices to business methods, and clients supported range from start-ups to Fortune 50 companies. I believe the primary impact the AIA will have on my daily practice is that certain disclosures or inventions that had not traditionally been acted on as a priority in terms of patent filings are now going to be moved to the forefront. For example, we are going to be seeing a lot more filing activity involving provisional patent applications, as clients attempt to stay in lockstep with the legislative changes in this area. Since “prior commercial use” as a defense to patent infringement is now broadened, as of September 16, 2011, processes, machines, and compositions of matter may potentially be within the scope of this change. In lieu of focusing upon false marking and inequitable conduct, litigants shall be forced to address the merits of patent infringement. Instead of hiding the ball and/or cloaking improper conduct under the rubric of “opinions of counsel,” accused infringers shall have to come to grips with the fact that evidentiary consequences of the same have been minimized.

Many inventions that would have previously been held as trade secrets or kept on the shelf for later development are going to be considered for patent filing. In the years to come, I anticipate that we are going to be busy doing filings to cover a number of innovations and the design-arounds for those innovations, as the pace of innovation increases on a daily basis.
Key Cases and Pending Decisions Affecting Patent Law: From the AIA to *Ultramercial v. Hulu*

Again, much of the new legislation and court rulings in the patent law realm are based on the belief that patent law is something everybody can and should understand, and there have been several Supreme Court cases that follow that trend managing everything from inequitable conduct as a defense to the standards for spoliation of evidence, under the new electronic discovery rules. Similarly, in a recent case called *Ultramercial v. Hulu*, 657 F.3d 1323 (Fed. Cir. 2011), the Federal Circuit ruled that contrary to common belief, business methods have very strong subject matter basis under the current patent law statutes, and therefore business methods are patentable.

Both the Supreme Court and the Federal Circuit have issued rulings that clearly define patentable subject matter—and that includes anything that may help a business achieve a return on investment or create value. Several cases in this area are significant in that they indicate that certain things that could not be patented in the past are now patentable. Much like the way the Supreme Court has de-limited business methods, the courts are recognizing that the new technology often requires activist readings of the patent statutes. Combined with the filing impetus provided by the new AIA legislation, we may see a new “golden age” of patenting.

It remains to be seen how the new provisions of the AIA are going to play out in the courts. For example, there is a lot of pending litigation regarding the new prior use defense and the high-speed *inter partes* reexamination system—key elements that underpin the switch to a first-to-file system. In a nutshell, as mentioned, the prior use defense has been expanded beyond business methods. Just like an invalidity defense, the new prior use defense must be proven by clear and convincing evidence, as well as being good-faith commercial use in the United States. This defense is a personal defense to infringement, and it may not be licensed or assigned to another except as part of a good-faith transfer of an entire business or line of business. Although there is a narrow exception provided for universities, against whom the defense cannot generally be used, the exception is narrowly tailored and does not apply “if the activities required to reduce to practice the subject matter of the claimed invention could not have been undertaken using funds provided by the federal government.” However, the prior use defense is only as good as the evidentiary underpinnings that can be proven to support it.
There are currently a lot of disparate pieces of patent law, and the courts are trying to pull them together in a comprehensive fashion. Basically, I think the Supreme Court’s decisions are aimed at instructing the Federal Circuit that its rulings need to be focused on making patent law less of a mystery, and that it needs to take some of the magic and intrigue out of the process of claim interpretation. Simply put, patent law decisions need to become more rational and follow precedent, as is the case in other fields of law. For instance, when the **KSR** decision clarified years of precedent and abolished any rigid test, which changed the definition of obviousness, the Federal Circuit was challenged to make other aspects of patent law clearer. Similarly, our firm has endeavored to clarify the tenets of patent law through our litigation practice. We want our clients to understand what the boundaries are for their rights, and how and why certain patents are unenforceable or enforceable.

**Exploring New Settlement Strategies in Patent Litigation**

I do a fair amount of IP diligence and transactional work in patent licensing and litigation situations, and there have typically been pregnant pauses during the diligence process when you talk to clients about how patents are valued and what they are worth. Fortunately, I believe the new transparency and visibility of the patent process that has resulted from the passage of the **AIA** is making patent settlement negotiations much more straightforward. A more rational approach is now being utilized with respect to understanding what a litigation enforcement verdict could produce, along with the **AIA**’s elimination of multi-defendant patent litigation (which may finally curb the expense of the non-practicing entity/patent troll issues we all have dealt with) by calling out a single suit under Rule 20.

Essentially, there is a much lower degree of the use of “smoke and mirrors” in patent litigation. Increasingly, patent lawyers are able to refer to data points including the actual numbers needed to enforce and defend patents, as opposed to rank speculation regarding what patents are worth, and the transactions I have been involved with have become much more straightforward in light of this change in the law. Simply put, we are no longer dealing with a nebulous patent valuation card. Rather, it is now much easier to decide what patents are worth in a patent infringement action by streamlining the process and having higher degrees of fair boundaries erected, which has led to a more rational settlement process.
For example, I was recently involved in a case where an exclusive licensor of a major set of patents was accused of infringement by an entity that had globally licensed an across-the-board series of nested design and utility patents. The enforcement scope in this area had been very hazy in the past, and that situation had enabled the entity to leverage its position in such a way that it could force companies to pay big settlements in patent infringement suits. However, given the fact that we can now rationally defend putting a certain dollar amount on a settlement in such cases, thanks to the new inter partes reexamination process, we were able to get the case settled within a year and a half, and for under $5 million, as opposed to litigating the case for three and a half years before even getting to a Markman hearing where a judge allows litigants to present arguments on how to construe claims, before deciding which was to go on particular claim terms.

Basically, during settlement negotiations, we presented in a very straightforward way how we would have the patents reexamined, and what our assessment was with respect to why they were not enforceable. Fortunately, the law in this area has been amended in a way that allowed us to present to the other side the arguments we would use in litigation, thereby avoiding an outcome where we would wind up litigating for years to come.

**Due Diligence Strategies for Structuring Patent Agreements**

We do a lot of diligence work in our patent law practice, and that diligence work has also been made more straightforward by our new ability under the law to take people’s patents at face value. Essentially, all of the information in relation to a patent is publicly available once prosecution starts. In other words, you can pull the “file wrapper” off any patent you are investigating. This is important, because how we do our diligence and structure our licensing agreements is based upon what we believe to be the actual value of the patent moving forward. In fact, I have been involved in a number of transactions where we were able to effectively manage the price for the buyer by walking through scenarios in which the seller valued their patents based upon what they are going to be able to do to keep others out of the marketplace. As opposed to simply saying “This is a broad, pioneering patent that covers everything,” we were able to carve out a much more narrow space, and tie patent valuation to an industry-specific number of players the seller could stop from being in a particular market space. This
strategy is often effective where one can define a market segment impacted by a patent family, and then walk through the cost of entry into said space, for example, by gauging the litigation/reexamination strength of the patents at issue, along with costs and timing for the same.

According to the PTO, there were over 300,000 issued patents in 2011, which is up from 200,000 as recently as 2005–2007. Therefore, we are seeing an exponential growth in patent filings, and those issued patents are also more rational in terms of obviousness—in other words, you can read the claims and know exactly what they mean. I am not seeing as many cases where people threaten other parties based on the doctrine of equivalence, which has been substantially curtailed given the modern doctrines of prosecution history estoppel. Rather, I am seeing more straightforward cases that involve valuing what patents are worth. This is certainly a positive trend, because it enables a more straightforward and to-the-point diligence transaction, as opposed to a protracted three- to four-year negotiation where you need to bring in different experts to value what certain patents are worth. What clients now bring to the table are metrics driven by the value of having a market share over time, as opposed to breaking out the crystal ball.

Patents are now the major currency of the IP realm, and fortunately, it is now much easier to determine the value of a patent. In fact, anybody who is involved in high-level diligence transactions these days has a good idea of what should be paid for patents based upon what they can do to stop others from infringing in the marketplace—which, again, was not always the case in the past. Fortunately, recent changes in the law are going to reinforce this trend.

**The Value of Provisional Patent Filings**

One of the interesting challenges for patent lawyers at this time is to explain to start-ups or smaller inventors how they can and should be involved in the patent law changes under the new legislative scheme. For example, a start-up in the medical field can file half a dozen provisional patent applications if they are trying to cover a narrow area in medical devices. In most cases, a start-up knows it is ultimately an acquisition target for its competitors, and seven or ten big medical device companies can file fifty patents with the same degree of work it takes for a start-up to file ten.
Unfortunately, if a start-up starts relying upon things other than IP to advance their company, such as a clever branding strategy or focus group acceptance of their products over the staid and proven competitors, any patents they have filed to protect their innovations are going to be left by the wayside, and they are not going to be able to compete in the marketplace. They will not be able to jump into the market after a couple of years as a start-up and only then begin building their IP portfolio.

Consequently, it is important for start-ups to keep in mind that the law is now favoring companies and inventors that are the “squeaky wheels” in terms of getting their filings done. However, it is important to do those filings in volume and in proportion to what a company wants to control in the marketplace. Those who do not follow that strategy or who face some other constraints that do not allow them to file early on are going to fall behind very quickly. To control the ongoing improvements in product life cycles, it is often imperative to plan for next-generation improvements and selectively license aspects of the base technology.

Utilizing Proactive IP Strategies

Looking ahead, I believe patent attorneys will need to become more proactive as service providers in terms of assessing the value of our clients’ patents and the necessity of pursuing a patent strategy. In many cases, even very sophisticated mid-market and higher-level companies will utilize what is more easily characterized as patent tactics, as opposed to a patent strategy, and these tactics are merely short-term solutions to help the company get through a product development cycle. Strategy involves long-term planning on how to get from point A to B to C. Often tactics (what needs to be done at any step along the way) become constrained by and mired in cost issues, and forests are neglected for want of enough trees.

I believe developing an effective patent strategy involves a much larger strategic interplay between the entities we represent and our role as patent attorneys, at every step in the process. For instance, when we are developing a patent strategy to cover a new product entry into a certain field, we need to keep in mind that our client’s competitors will also understand this to be an important area. Consequently, we should be taking a broader strategic view in terms of patenting all of the important aspects of
the client’s technology. Simply stated, the old strategy of looking at a whole field and then trying to carve out little pieces is being supplanted by a trend towards trying to patent as many of the client’s innovations as possible—a strategy that was very successful in the late 1990s and early 2000s for a lot of the Japanese entities that ended up dominating the US patent system. I think we are returning to a system where there is going to be a lot more patent filing, and having a patent strategy to cover an entire field is going to be more important than utilizing tactics to get one product cleared in such a way that it does not infringe on a competitor’s product in order to achieve market share.

Similarly, as a result of the Federal Circuit decision in the Hulu case, there has been a lot of controversy around the post-grant opposition system as it applies to business method patents. Consequently, in anticipation of more post-grant oppositions being granted in business method patent cases, we are going to be proactively filing more business method patents—in fact, we may see a return to the heyday of business method patent filings that took place three or four years ago. As noted, the Supreme Court has given us clear signals that anything that is useful should be patentable—not just software, but other things that are useful and have applicability to a client’s business, such as more efficient and sustainable processes for manufacturing and procurement of better yields. Because the new law enhances the need to file business methods, many things that were traditionally protected by trade secret are going to be IP audited, and then filed as business method patents. Therefore, whenever we do an audit of a company, we are now going to have to look at things that were not traditionally considered to be patentable subject matter and see if they can, in fact, be protected by patents.

Ultimately, we will have to be much more diligent about analyzing any IP the client has not filed applications on, and evaluate if it can be patented in order to stop others from practicing in the client’s space.

**Positive Changes for IP Lawyers and Their Clients**

The companies we represent are generally in market-leading positions. Therefore, as the economy has shown glimmers of improving, our clients have become increasingly active in the IP space. Consequently, even though
there are challenges including application of the new laws to their respective patent procurement and enforcement strategies going forward, I see innovation driving economic growth higher in the next three to five years. Companies with technology that is likely to have market value will be reinvesting in patent application preparation, prosecution, licensing, and enforcement. Essentially, many clients are riding the innovation wave, and as the economy gets stronger, litigation is likely to increase in this area—but that litigation will be based on better case law and legislation.

For instance, a key aspect of the AIA that is very helpful to many of our clients pertains to companies that have had innovation issues with respect to non-practicing entities or patent trolls. These non-practicing entities often amass large portfolios and seek to block others by enforcing them in consumer product areas, and affect the ability to keep top-selling products out of the marketplace. A major provision in the new law is that you cannot file multi-party lawsuits, and you have to file against individual defendants. That provision has really taken the teeth out of a lot of the patent troll litigation we have been seeing in recent years. Non-practicing entities now know they cannot simply shake down large companies who are working in areas that everyone knows are going to be centers for innovation. They have to target specific companies that have ostensibly infringing subject matter, and file suit against one company at a time. Also, as we move to a system with new pre-grant opposition proceedings, there are going to be more cross-licensing deals—which I view as a positive alternative to patent troll litigation, or litigation related to patents that could not be properly valued because it ultimately benefits the end-user or consumer to have rational pricing structures based upon demand. Therefore, I am looking forward to the issuance of more and better patents, largely driven by a stronger economy. Again, while patent litigation is likely to increase, the new cases are going to be different from traditional patent litigations. They are going to settle more quickly, and they are not going to hamper a party’s role in the marketplace. Rather, this litigation is going to be more consistent with the growth in cross-licensing, and it will put a new focus on innovation as a force to lead economic growth.

Also, the legal changes in this area have been very positive in that they make everything in this area much more transparent and manageable. Fortune 50 clients serviced are extremely happy these days, because they are now better able to marry their innovation cycles to the patent system,
whereas before there was some disconnect in this area. Investment in improved technology needs to be linearly related to return on investment. Essentially, many clients who have been quietly innovating for years are going to file as many patent applications as possible in the coming year, and that is going to be a huge, positive change in the patent law realm.

Conclusion

The new changes to the law, specifically the AIA, are likely to make our patent system stronger and provide for higher degrees of predictability for those investing in, acquiring, and divesting themselves of technology-driven businesses. By “debunking” the antiquated system of interferences, imposing pre- and post-grant opposition systems, and doing so over time with other improvements, US patent law can continue to set global trends. The brave new world of patents makes good sense as we observe transitions in the global economy and battle to keep our technology first and foremost. The adage about making your own luck conveniently dovetails with the realities of serendipity, often cited as the single strongest force driving the innovation cycle.

Key Takeaways

- Clarify the tenets of patent law under the AIA and recent case law for your clients. Help clients understand what the boundaries are for their rights, and how and why certain patents are unenforceable or enforceable.
- During settlement negotiations in an infringement suit, present in a very straightforward way how you would have the other party’s patents reexamined and what your assessment is with respect to why they are unenforceable.
- Inform start-ups that the law is now favoring companies and inventors that file patents early on, and who file patents in volume and in proportion to what a company wants to control in the marketplace.
- Become more proactive in terms of assessing the value of your clients’ patents and the necessity of pursuing a patent strategy. Take a broader strategic view in terms of patenting all of the important aspects of the client’s technology.
• Be more diligent about analyzing any IP the client has not filed applications on, and evaluate if it can be patented in order to stop others from practicing in the client’s space. When auditing the client’s IP, look at things that were not traditionally considered to be patentable subject matter to see if they can, in fact, be protected by patents.

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Mr. Gluck continues to manage medical device work, consumer products, branding, and all matters derived from or related to intellectual property. Starting with undergraduate degrees in biology and philosophy, he was awarded a master of intellectual property degree along with his JD from the Franklin Pierce Law Center (now of the University of New Hampshire Law School). After stints with premier Los Angeles firms, he went in-house, culminating his career as a corporate officer of a medical device company. He teaches in the Political Science and International Studies Departments of the University of California at Irvine and works with start-ups to Fortune 50 companies.
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