

IP Seminar in Yokohama 2013

July 2, 2013

**Current Developments of the U.S. Patent System:
The New America Invents Act,
The Impact of Patent Trolls in Patent Litigation,
and Other Recent Developments
That Impact the U.S., Japan and Elsewhere**

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The America Invents Act

- The America Invents Act (“AIA”) was signed into law by President Obama on September 16, 2011
- The AIA has made the most changes to U.S. Patent Law in 60 years

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The Main Changes - Overview

- The U.S. Patent System was a “first to invent” system – it is now a “first to file” system for newly filed patent applications
- There is a new patent opposition proceeding that can be brought in the U.S. Patent and Trademark Office, which is called “Post Grant Review”
- There is a new expedited procedure for examining U.S. patent applications
- U.S. applications now can be filed in the name of a company
- There are other changes to U.S. patent law

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The new First to File System

- The rules of the new “First to File” system apply to all U.S. patent applications that are filed on or after March 16, 2013
- The old “first to invent” rules are applied to U.S. applications that were filed before March 16, 2013
- In addition, the old rules are applied to a U.S. application filed on or after March 16, 2013 if the U.S. application claims priority to (is based on) another application that was filed before March 16, 2013 and all of the claims are supported
 - ◆ the other application can be another U.S. application, a non-U.S. application (e.g., a Japanese application), or an international patent application

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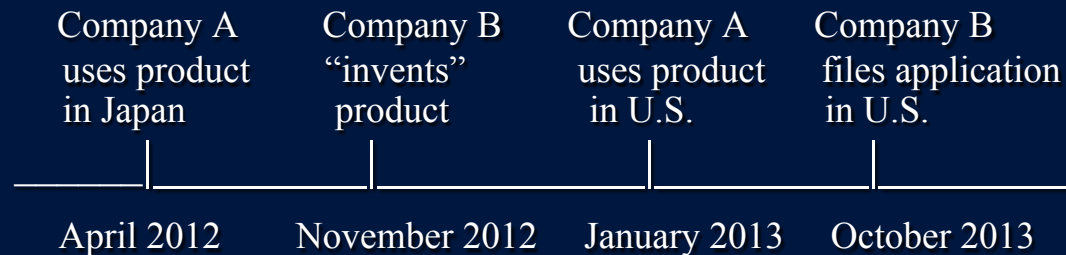
The new First to File System

- Under the new rules, there is more “prior art” that can be used to reject a U.S. application
- New rule: The application must be filed before the invention is patented, described in a printed publication, in public use, on sale, or “*otherwise available to the public*” anywhere in the world.
- Under the old rules: public use or sale of the invention outside the U.S. is not prior art

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The new First to File System

Example 1 – Showing Major Difference in Rules



- ◆ Under the new rules: Company A’s public use of a product in Japan in April 2012 *is prior art* to Company B’s U.S. Application
- ◆ Under the old rules: Company A’s activity both in Japan and in the U.S. are NOT prior art to Company B’s U.S. Application

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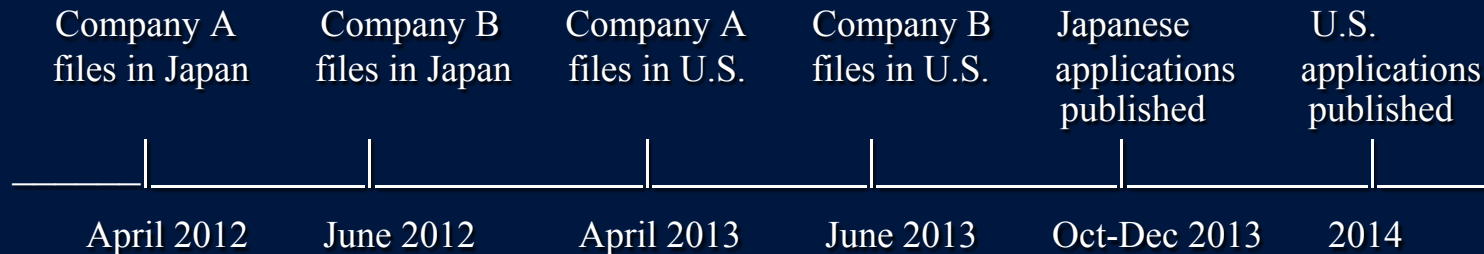
The new First to File System

- Under the new rules: U.S. patents, published U.S. patent applications and published international “PCT” applications of others are prior art as of their *priority filing date*, regardless of where the priority applications were filed
- Under the old rules: The documents listed above are prior art as of their U.S. filing date or international filing date, but only if the international application was published in English
 - ◆ *The filing date of a non-U.S. priority application is not relevant under the old rules*

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The new First to File System

Example 2 – Showing Major Difference in Rules



- ◆ Under the new rules: Company A's published U.S. application is prior art to Company B's U.S. application since Company A filed first application in Japan
- ◆ Under the old rules: Company A's filings are not prior art to Company B's U.S. application

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The new First to File System

- Effect of the new system
 - ◆ The date of invention is no longer relevant in determining what is prior art to a U.S. patent application
 - ◆ There is no longer any distinction between activity that occurs in the U.S. and activity that occurs outside the U.S. – all activity is treated the same
 - ◆ Priority is easy to determine under the new system – only need to consider dates of filing of applications and dates of public disclosures
 - ◆ More consistent with patent laws of other countries

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The new First to File System

- U.S. “one-year” grace period is retained
 - ◆ The new U.S. system retains the “one-year” grace period for an inventor’s own public disclosures
 - ◆ Therefore, an inventor can publicly disclose the invention and then file a U.S. patent application within one year of that public disclosure
- But it is strongly recommended that a patent application be filed before disclosure since patent rights outside the U.S. will be affected

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The new Derivation Proceeding

- If a patent applicant believes that another person or entity who filed an earlier U.S. application *derived* (stole) the invention from the applicant without authorization, the patent applicant can petition the U.S. Patent and Trademark Office (USPTO) to commence a “**Derivation Proceeding**”
- A Derivation Proceeding must be brought within one year from the publication date of the later-filed application
- The Derivation Proceeding replaces the USPTO’s interference proceeding, which determined which entity invented first

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The new Derivation Proceeding

- Since evidence is needed for a patent applicant to be successful in a Derivation Proceeding, it is highly recommended that:
 - ◆ Companies keep good records about when inventions are first conceived of, developed and implemented
 - ◆ Companies keep information secret if possible
 - ◆ Companies maintain records of names of people/companies who are provided with information about the inventions
 - ◆ Companies use non-disclosure agreements if possible
- The above-recommendations also are helpful in maintaining trade secret protection of important information/developments

U.S. Patent & Trademark Office Fees

Types of Applicants

- The USPTO fees are based on the “status” of the patent applicant
- There are three types of applicants:
 - ◆ “Large Entity” applicant: pays the regular (non-discounted) fee
 - ◆ “Small Entity” applicant: receives a 50% discount for most fees
 - ◆ “Micro-Entity” applicant: receives a 75% discount for most fees
- The “Micro-Entity” is a new status (effective March 19, 2013)

U.S. Patent & Trademark Office Fees

Types of Applicants

- “Large Entity” applicant: a company with more than 500 employees (including employees of “related” entities – subsidiaries, parent, etc.)
- “Small Entity” applicant: a company with 500 or less employees, or a not-for-profit company or a university
- “Micro-Entity” applicant: a person with an income of no more than 3 times the average U.S. household income (currently, the average household income is about \$51,400), and who has filed less than 5 other patent applications, and who has not assigned or licensed the technology to a non-micro entity

U.S. Patent & Trademark Office Fees

Example:

- The filing fee for a U.S. patent application is:
 - ◆ For large entity: \$1,600
 - ◆ For small entity: \$800 (50% discount) (if the application is electronically filed, the fee is \$730)
 - ◆ For micro-entity: \$400 (75% discount)
- There are additional fees based on claim count and length of the application
- All USPTO Fees are available at:
 - ◆ <http://www.uspto.gov/web/offices/ac/qs/ope/fee031913.htm>

U.S. Patent & Trademark Office

Important Statistics (as of May 2013)

- First Office Action Pendency (time from filing until initial examination of application): **18.7 months** (on average)
- Total Pendency (time from filing until either patent grant or abandonment of application): **30.6 months** (on average)
- Number of Office Actions per Application: **2.54** (on average)
- Unexamined Patent Applications: **600,149**
- Number of U.S. Patent Examiners: **7,808**

U.S. Patent & Trademark Office

New Expedited Procedure – “Track One”

- A patent applicant can request expedited examination of a U.S. patent application (called “Track One”) for a fee:
 - ◆ \$4,000 fee for large entity
 - ◆ \$2,000 fee for small entity
 - ◆ \$1,000 fee for micro-entity
- Normal filing, search, examination and publication fees also must be paid
- Expedited examination is not available for U.S. national phase applications. However, it is available for U.S. “by-pass” continuation applications, which is a U.S. continuation application of an international PCT application

U.S. Patent & Trademark Office

New Expedited Procedure – “Track One”

- The goal of USPTO is for a “Track One” application to be allowed or finally rejected within 1 year
- USPTO Statistics:
 - ◆ Time from filing (with request for expedited examination) until initial examination: 3.4 months (on average)
 - ◆ For non-expedited applications: 18.7 months (on average)

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Filing in Name of Company/Assignee

- U.S. patent applications now can be filed either:
 - ◆ in the name of the inventor(s)
 - ◆ in the name of the assignee (e.g., employer)
 - ◆ in the name of an entity to whom there is an obligation to assign the invention
- Before September 26, 2012, all U.S. patent applications were filed only in the name of the inventor(s)

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The New Post-Grant Review Proceeding (Patent Opposition)

- To challenge the validity of a U.S. patent, a third party may request Post-Grant Review by the USPTO of any patent that was examined under the new “first to file” rules
- The request for Post-Grant Review must be submitted within 9 months of the grant of the patent
- The claims in the patent may be challenged **on any ground**
 - ◆ For example: lack of novelty, obviousness, lack of enablement, indefiniteness, improper subject matter, etc.
- Any type of evidence can be submitted
 - ◆ printed documents (patents, printed publications), affidavits (sworn statements), declarations, etc.

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The New Post-Grant Review Proceeding (Patent Opposition)

- During the Post-Grant Review proceeding, the patent owner is allowed to:
 - ◆ amend any challenged claim in the patent
 - ◆ cancel any challenged claim;
 - ◆ propose a reasonable substitute claim(s)

But the amendment / substituted claims **cannot** enlarge the scope of the patent

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The New Post-Grant Review Proceeding (Patent Opposition)

- Post-Grant Review is expected to be faster than previously available USPTO proceedings
- The USPTO desires to have a Post-Grant Review proceeding completed within 12-18 months from its initiation
- More types of issues can be raised in a Post-Grant Review proceeding than can be raised in previously available USPTO proceedings that re-examine issued patents
- The cost of Post-Grant Review is expected to be far less expensive than attacking a patent in the U.S. Courts

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Third Party Submission of Prior Art in Pending U.S. Applications

- A third party can submit published documents and a discussion of the relevance of those documents in a U.S. patent application of another entity
- The third party can remain anonymous
- The submission deadline is the later of:
 - ◆ 6 months from the publication date of the application; or
 - ◆ the date of first rejection of any claim in the application, but
 - ◆ before the mailing of a notice of allowance

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New “Virtual” Marking of the Patent Number

- Background: In the U.S., it is a requirement that an accused infringer have notice of a U.S. patent before damages for infringement can be recovered
- Such notice can be given by:
 - ◆ Providing the accused infringer with “direct notice” (e.g., sending a letter, such as a “cease and desist” letter), or
 - ◆ Providing “constructive notice” by marking the patented product with the U.S. patent number
- Exception: the notice requirement is waived if the patent is not being exploited by the patent owner or via a licensee

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“Virtual” Marking of the Patent Number

- When a U.S. patent is granted, it is strongly recommended that the patented product include the U.S. patent number so that there is “constructive notice”
- With such “constructive notice”, monetary damages for infringement accrue (continue to increase) even if the infringer is unaware of the infringement
- The America Invents Act has created a new way of providing such “constructive notice” – called “Virtual” Marking

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“Virtual” Marking of the Patent Number

- “Virtual” Marking means that instead of marking the product with the U.S. patent number, a patent owner can:
 - ◆ post the patent information on the Internet at an Internet address that is freely accessible; and
 - ◆ mark the product with the word “patent” (or “pat”) together with that Internet address

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“Virtual” Marking of the Patent Number

- For example,
 - ◆ a company can have an Internet address (website) that identifies a product and the patent(s) that covers that product; and
 - ◆ mark the product with the appropriate label, such as:
 - ◆ “For list of patent(s) covering this product:
see www.company-patent-list.com”

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“Virtual” Marking of the Patent Number

Example

Product: Oval Widget

For list of patent(s) covering this product:
see www.company-patent-list.com

Product: Diamond Widget

For list of patent(s) covering this product:
see www.company-patent-list.com



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“Virtual” Marking of the Patent Number

- Advantages of “Virtual Marking” as compared to regular marking of products with patent numbers:
 - ◆ The same label can be used on different products that are covered by different patents
 - ◆ It is quick, easy and inexpensive to modify a website after a U.S. patent is granted that covers a particular product
 - ◆ Products with the “virtual marking” that have already been sold will provide “constructive notice” even for newly granted U.S. patents

Patentable Subject Matter of a U.S. Patent Developments

Software, Business Methods and Financial Products

- Software, business methods and financial-related products usually are appropriate for patenting in the U.S.
- But the invention as described in the claims of a patent application must be “tied” to a computer or other technology that assists in carrying out the invention
- However, the examiners at the USPTO do not examine these types of applications consistently

Patentable Subject Matter of a U.S. Patent

Software, Business Methods and Financial Products

Examples of Software / Financial Product Patents

- U.S. Patent 7,085,738 - directed to a particular type of hedge fund
- U.S. Patent 7,212,998 - directed to a currency trading operation
- U.S. Patent 7,565,316 - directed to “swaps”
- U.S. Patent 7,908,203 - directed to a particular type of trading system
- U.S. Patent 8,156,027 – directed to fair value pricing of a fund

Patentable Subject Matter of a U.S. Patent

Improper Subject Matter

- On May 13, 2013, the Court of Appeals in *CLS Bank International v. Alice Corp.* held a patent directed to a computerized trading platform invalid as being directed to improper subject matter
- The patent specifically was directed to a computerized trading platform for exchanging obligations in which a trusted third party settles obligations between a first and second party so as to eliminate “settlement risk”
- The patent was invalidated, not because it was simply directed to a computerized trading platform, but because the claims in the patent were directed to, for the most part, an abstract idea

Patentable Subject Matter of a U.S. Patent

Other Improper Subject Matter

- Tax Strategies cannot be patented in the U.S.
 - ◆ These include strategies and procedures for reducing, avoiding or deferring tax liability
- Human organisms cannot be patented in the U.S.
- Currently, the United States Supreme Court is considering the appropriateness of patenting isolated human genes (*Association for Molecular Pathology v. Myriad Genetics*)

The U.S. Provisional Patent Application

- What is the U.S. Provisional Patent Application
 - ◆ The U.S. Provisional Patent Application is a lower-cost application that does not have all of the requirements of a typical national application but that is recognized by all countries for purposes of claiming priority under the Paris Convention.
 - ◆ After a U.S. provisional patent application is filed, a regular U.S., non-U.S. or international application must be filed within one year to properly claim priority to the provisional application
 - ◆ Like a regular U.S. national application, anyone or any company in the world can file a U.S. provisional application

The U.S. Provisional Patent Application

- The U.S. Provisional Patent Application must contain a specification and drawings (if necessary) of the invention, similar to a regular national application
- However, the U.S. provisional application does not require:
(a) a set of claims; (b) formal drawings (informal drawings are acceptable); or (c) a U.S. declaration
- The U.S. provisional application can be filed in any language and an English-language translation is not required for at least one year
- The U.S. provisional application is not examined
- The U.S. provisional application cannot become a patent

The U.S. Provisional Patent Application

- Why file a U.S. provisional patent application?
 - ◆ Since claims and formal drawings are not required, the provisional application usually can be prepared and filed more quickly as compared to a regular national application
 - ◆ The provisional application usually can be prepared and filed at a cost that is less than the cost to prepare and file a regular national application
 - ◆ English translations are not required until a regular U.S. national application is filed
 - ◆ Additional provisional applications can be filed to disclose subsequent developments, and then the regular national application (Japan, U.S., etc.) can claim priority to the multiple provisional applications that were filed
 - ◆ The provisional application is kept secret until the regular national application becomes publicly available

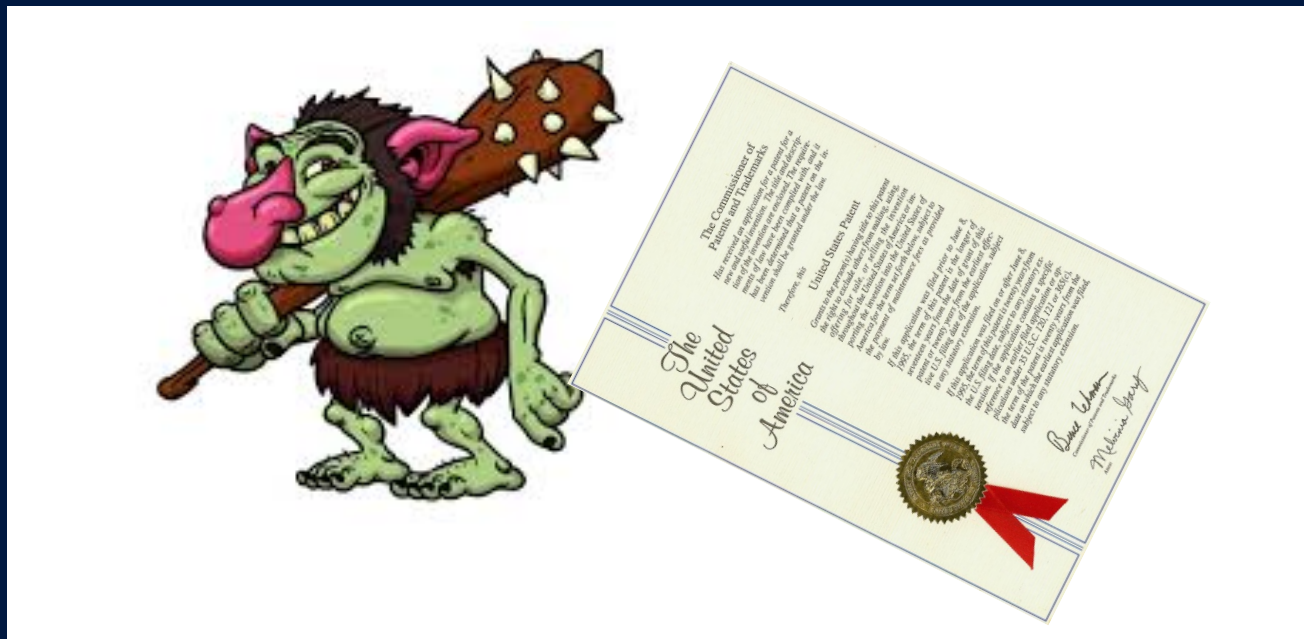
Patent Trolls

A problem in the U.S. –
quickly becoming a worldwide problem

What is a Patent Troll?

Patent Trolls

The Patent Troll?



Patent Trolls

- What is a Patent Troll?
 - ◆ The patent troll originated in the United States and is a company that enforces patents against accused infringers in a manner that is typically very aggressive
 - ◆ The patent troll rarely develops technology and rarely invests money in securing patents from a government patent office
 - ◆ Instead, the patent troll purchases patents that it has assessed are reasonably suitable to be asserted against other companies for the sole purpose of making money

Patent Trolls

A problem

- Most patent trolls operate for the sole purpose of making money by attacking already existing technology of other entities
- Patent trolls rarely use their patents to develop new and beneficial technology
- Some people and many articles now refer to a patent troll as:
 - ◆ a “patent-assertion entity” (PAE) or
 - ◆ a “non-practicing entity” (NPE)since these terms are less offensive

Patent Trolls

A problem

- The size and number of patent trolls significantly increased from 2005 through today and the number of patent infringement lawsuits filed by patent trolls has exploded in the last several years
- In 2007, 24 percent of patent infringement lawsuits in the U.S. were commenced by patent trolls
- In 2012, 56 percent of patent infringement lawsuits in the U.S. were commenced by patent trolls

Patent Trolls

A problem

- Patent trolls cost businesses in 2012 an estimated amount of **\$29 Billion Dollars (US \$29,000,000,000)** in legal fees and licensing costs

Patent Trolls

- Most of the lawsuits commenced by patent trolls are settled very quickly by the defendants, despite the fact that the patent owner's position of infringement often is weak
- Almost always, the cost of the settlement is less than the total cost to defend, which is very high in the U.S.
- Patent trolls often establish a settlement amount for the defendant based on the likely cost of the litigation to the defendant, and not on the value of the patent or the strength (or weakness) of the infringement claim
- Patent trolls are able to keep their litigation costs low by using attorneys who work on a contingency basis – the attorneys get a percentage of the settlement rather than charge for their time

Patent Trolls

What is being done?

- The America Invents Act created a rule that was intended to address the problem of patent troll litigation
 - ◆ As of September 16, 2011, a plaintiff in a U.S. litigation may no longer join multiple defendants in a single lawsuit where the sole basis for joining the defendants is the alleged infringement of the same patent
 - ◆ Before this date, it was common for a patent troll to commence a patent infringement action against many companies (e.g., 50 companies)
 - ◆ Today, the patent troll must commence separate litigations against each of those companies

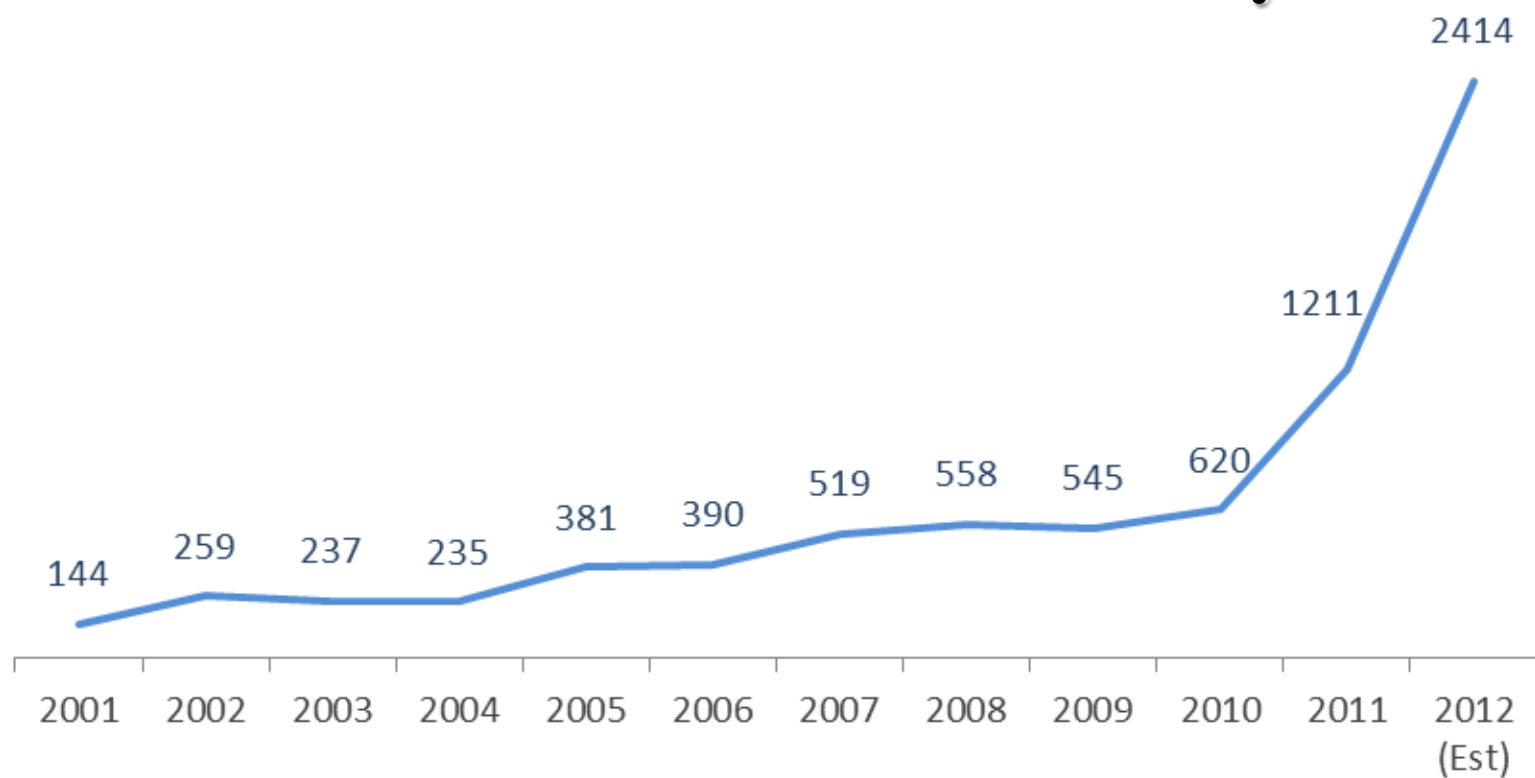
Patent Trolls

What is being done?

- Unfortunately, the new rule did not discourage the activity of patent trolls
- Patent trolls simply commenced many litigations

Patent Trolls

Number of Patent Troll Cases Annually



Patent Trolls

What is being done?

- The U.S. Congress currently is considering legislation – called the “Shield Act” -- that is designed to protect companies that develop and use technology
 - ◆ The proposed legislation states that if the plaintiff in a patent infringement litigation
 - ◆ is not the inventor,
 - ◆ does not exploit the asserted patent through manufacture or sale of the patented item, and
 - ◆ is not a university or technology transfer organization of a university
 - ◆ and the plaintiff is unsuccessful in the litigation (the patent is invalidated or is not infringed), then the Court will award the recovery of full costs to the prevailing defendant, which includes the defendant’s reasonable attorneys’ fees

Patent Trolls

What is being done?

- Some companies have begun to attack the trolls
- For example, the new startup company Unified Patents has the mission of challenging the validity of patents that are being asserted by patent trolls
 - ◆ The patents will be challenged at the USPTO
 - ◆ The company is forming groups (called micro-pools) of companies in a related industry in which the companies will pay fees to support the invalidity efforts

Patent Trolls

- What can companies do to protect themselves
 - ◆ **Research patents before you innovate**
 - ◆ Check all patents and intellectual property before beginning any development of new products or services
 - ◆ Be aware of known trolls in your industry
 - ◆ **Consider attacking the validity of the asserted patent in the USPTO**
 - ◆ **Communicate with other troll targets**
 - ◆ It is likely that other companies in your field may already have dealt with the patent troll – those companies may be willing to provide highly useful information
 - ◆ **For start-up entities, make it clear that that you have no money**

Advice to Japanese Companies

Summary

- For new applications, the concept of “prior art” in the U.S. is similar to the concept of prior art in Japan
 - ◆ However, if the invention is publicly disclosed prior to filing, you can still pursue a U.S. patent so long as the U.S. application (or priority application) is filed within one year of such public disclosure
- To quickly file an application, consider filing a U.S. provisional application and then using the U.S. provisional application as the priority application for the later-filed Japanese application
- With respect to software, business methods, and financial-related inventions, keep in mind that the U.S. has a relatively lax policy in assessing what is proper subject matter

Advice to Japanese Companies

Summary

- Consider requesting expedited examination if it is desired to obtain a U.S. patent quickly
- After receiving a U.S. patent, be aware of the U.S. marking requirements
 - ◆ Also consider using the new “Virtual Marking” for the advantages that were previously identified in this presentation
- Maintain proper records while developing inventions
 - ◆ Such records may be beneficial in future “derivation” proceedings in the USPTO as well as trade secret protection
- In the future, consider the new Post-Grant Review procedure of the USPTO if it is desired to invalidate another company’s U.S. patent

Introduction

Cowan Liebowitz & Latman, P.C.

- Intellectual property law firm with 100 employees
 - ◆ Patent, Trademark, Copyright and Trade Secret Attorneys at Law
 - ◆ U.S. Patent Attorneys
 - ◆ Customs and Import Attorneys
 - ◆ Information Technology Attorneys
 - ◆ Commercial and Corporate Attorneys

Client Benefits

Cowan Liebowitz & Latman, P.C.

- The Cowan firm has proven experience and expertise in U.S. and international IP Law
- The Cowan firm uses our integrated practices to work together to benefit clients
 - ◆ For example, integration between our IP and Customs practices saves clients money through ensuring properly assessed duties and time by facilitating the importation process on products coming into the U.S.
 - ◆ Integration between IP and Corporate attorneys saves clients money on what business information needs to be filed in the U.S. thereby cutting wasted time
- The Cowan firm uses our experiences and understanding of our clients' social and business cultures
 - ◆ We use our cross-cultural, corporate and legal strengths to build long term, productive relationships with our clients

Cowan Liebowitz & Latman, P.C.

- Representative Industries of our Clients:
 - ◆ Electronics, Computers, Internet, Telecommunications
 - ◆ Pharmaceuticals, Health
 - ◆ Consumer Goods
 - ◆ Financial, Banking, Insurance
 - ◆ Apparel, Fashion
 - ◆ Music, Broadcasting, Publishing
 - ◆ Food, Restaurants
 - ◆ Sports
 - ◆ Games, Toys

Thank you for listening to my presentation

- Questions and Answers
- If you have additional questions regarding this presentation or any U.S. intellectual property matter, please send me your questions via email to: MXM@CLL.COM

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