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Is Patent “Reform” Forcing Businesses to Seek Alternative IP Protection Strategies?

White Paper

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Companies of all sizes seek to focus on business development rather than on patent proceedings. Patents and the implementation of patents are a fundamental part of the ordinary operations of many businesses outside of the pharma/tech industries. Development and implementation of patentable technologies drives the innovations that set these businesses apart from their counterparts. When these types of businesses are considering filing a patent infringement action, it is because they face actual current issues in the marketplace that threaten the success, the growth, and sometimes the lives of their business, their innovations, their brands, and their investments in R&D. Consequently, if there is to be patent “reform,” it is important to focus on the needs of businesses outside of the pharma/tech divide. Those businesses have broad investment in their innovations and in obtaining patent rights, and they need to be assured of their ability to rely on those rights. Current and proposed “reform” is preventing many of these businesses from enjoying any benefit from their patents.

On March 18, the U.S. Senate Judiciary committee conducted and broadcast a full committee hearing on [“The Impact of Abusive Patent Litigation Practices on the American Economy.”](#) During the proceedings, a concern was raised about whether the “reform,” (which was intended to curb abuse of the system by the “patent troll” non-practicing entities), actually posed a barrier for seed, start-ups, small businesses and “non-troll” non-practicing entities to obtain capital or to enforce the patents obtained through their investment. On March 19th the Committee on Small Business and Entrepreneurship debated the need for a “balanced approach” on patent litigation reform, with the representative from the Small Business Technology Council characterizing the proposed legislation as the “Ending the American Dream Act.”

The legislators and those working on patent “reform” need to be able to tell our business owners, whether, from a business perspective, the time and cost to obtain an issued patent continues to provide, today, any usable or predictable benefit to a majority of the American businesses that want to invest in patent protection for their innovations. It is here where “reform” seems to be providing the biggest “disincentive.”

In the past, the response was that patents play a key role in the development of innovations worldwide. To incentivize an individual to disclose its innovations, it is assured they would be granted a limited “monopoly” in exchange for a full description of how to perform the innovation. With the proposed or implemented “reform,” inventors still are required to provide a full description of their innovation in sufficient detail to enable one of ordinary skill in the art to perform the invention. However, what they receive in exchange is not as simple as “a limited monopoly.”

1. From a Practical Business Perspective What is the ROI for Patent Issuance?

Prudent business owners consider the “return on investment” or ROI. What is the answer now that we are in the midst of patent “reform?” Post-grant proceedings are part of the “reform.” Given the current very high success rates for “invalidation” during these proceedings, one could argue that patent rights have not really been “issued” until such post grant proceedings have been exhausted. In fact, the *Baxter v. Fresenius* 721 F.3d 1330, 1332 (Fed.Cir 2013) decision informs us that even a patent owners’ courtroom “win” on validity could be stripped away by the results of one of these parallel Patent Office (PTO) proceedings. Budgets for such PTO proceedings range \$250,000.00 or more. Those who favor this reform point out that this cost is

less expensive than litigation. While likely true in the abstract, the practical result is that although the patent owner has complied with its full disclosure obligations in order to obtain an issued patent and has thus furthered innovations worldwide, its “limited monopoly” ROI may still be hundreds of thousands of dollars away and uncertain, at best. The effective cost to obtain meaningful patent protection is becoming increasingly high.

2. Benefits of Patent Protection Have Been Watered Down

In the past, the advantage of patent protection was that one could obtain, fairly promptly, an injunction (35 U.S.C. §283) to stop the infringement, both preliminarily and on a permanent basis. You could also obtain damages (35 U.S.C. § 284). And if the case was “exceptional,” “reasonable” attorneys’ fees could be recovered. (35 U.S.C. §285). While this relief is still statutorily available, the current state of the case law has dramatically impacted the ability to obtain, and the value of, any of this relief. The “reward” or “benefit” of patent protection no longer seems to outweigh the potential costs and risks in enforcing the patent.

3. Patent Enforcement Is More Costly, Complicated and Specialized

Proposals presented as “reform” are offered to make patent litigation more predictable, and/or to “curb the abuse” of the patent system. This now requires a working business, with an ongoing problem in the marketplace, to consider, over and above the time, cost and distraction of litigation, which in and of itself is a disincentive to enforcement, the following:

- The local patent rules of various District Courts, and costs associated therewith and penalties if not followed;
- The electronic discovery rules, obligations and procedures and costs associated therewith, and potential sanctions if something goes wrong;
- Recent decisions such as Alice, defining “patentable subject matter” differently than when applications were originally filed;
- Recent judicial decisions limiting damages and the availability of injunctive relief;
- The need to consult lawyers familiar with the Leahy–Smith America Invents Act (AIA) September 16, 2011, as well as the ability to actually “try” a complex technical case before a jury (the two skills don’t always appear in a single lawyer);
- The reality and additional budget to address the Patent Trial and Appeal Board (PTAB) post-grant proceedings under the Leahy-Smith America Invents Act (AIA) and the uncertainty given the challenges to the constitutionality of the post grant proceedings.

4. Enforcement Downside Risk Approaching Punitive

And what about the downside if there is a stumble along the way?

- 35 USC §285- exceptional cases may award reasonable attorney’s fees to the prevailing parties; *Octane Fitness LLC v. Icon Fitness* April 29, 2014; *Highmark v. Allcare Health* August 7, 2012 (making fee awards to prevailing parties more easily obtained);
- Sanctions under Rule 11 Fed.R.Civ.P. and Rule 37 Fed.R.Civ.P. ;
- State laws and pending legislation directed to patent demand letters, and bad faith assertions of patent infringement and potential liability that stems from such letters;
- The FTC announcement that it seeks to examine patent assertion entities, and whether if you are an individual inventor intending to use your invention someday, or a seed or start up company, could fall within that characterization. <https://www.ftc.gov/news->

[events/press-releases/2013/09/ftc-seeks-examine-patent-assertion-entities-their-impact](#) .
See, also, FTC approves final order barring patent assertion entity. March 17, 2015
<https://www.ftc.gov/news-events/press-releases/2015/03/ftc-approves-final-order-barring-patent-assertion-entity-using>;

- Proposed “mandatory fee shifting.”

5. Constant “Reform” Raises Further Unpredictability

A business considering whether potential patent protection has any actual predictable value to its business faces a variety of unpredictability, such as how its customers will respond, how other competitors will respond, and how the court and/or jury will respond. Post “reform,” the potential patent owner now has to consider how the PTAB will respond and wonder why the PTO did not do a more thorough job before issuing the patent in the first place. Continued “reform” causes the potential patent applicant to now worry about how the Government will respond. We are only in mid-March of 2015, and there are three proposed pieces of legislation directed to patents and/or the patent system, which have been presented.

- HR 9 Innovation Act;
- S. 632 STRONG Patents Act of 2015, Read twice and referred to the Committee on the Judiciary;
- HR 1057 Parts Act Impacting design Patent Law as it specifically relates to the automotive aftermarket parts industry.

Businesses considering patent protection now have to wonder whether the pitfalls in the road to obtaining patent protection and enforcement of patents will be bettered, or worsened.

Working innovative businesses need to be able to rely upon and use their patent rights, especially when they have an actual current problem in the marketplace. If there is to be reform, let’s make a predictable and affordable pathway for these businesses to see a realistic and tangible ROI. Current “reform” has not posed a “barrier” it has effectively delayed reliable “issued patent rights” until post grant proceedings are completed, and has removed enforcement as a viable option for most of working businesses.

6. Is Reform Forcing Innovators To Consider Other Forms of Protection?

If the ROI for patent protection does not make practical or economic sense, the conscientious business owner will turn its focus on alternative forms of protection, such as trade secrets, copyrights, branding strategies and better contractual provisions. While these alternative forms of protection do not serve to build “worldwide innovations” through the exchange of knowledge and information like the patent system was intended to foster, these types of intellectual property protection are starting to look more available and affordable and to make more practical business sense. Below is a chart outlining an approach to evaluating intellectual property protection.

**WHAT TYPE OF INTELLECTUAL PROPERTY PROTECTION SHOULD BE OBTAINED?
Take a New Look**

NEW BUSINESS ACTIVITY

How are you going to market it?

How are you going to sell it?

How are you going to distribute it?

What will be the Consumers' Response?

What will be the Competitors' Response?

What will be the Industry Response?

What will be the Government's Response?

Which form of Intellectual Property right (or combination thereof) is the best form of Protection

Patent

Trade Secret

Copyright

Trademark

Trade Dress

Intellectual property (IP) protection has to be effective, attainable and practical for businesses.

While the result of the analysis may still be patent protection as the best form of protection, chances are a ROI evaluation may dictate a different intellectual property strategy. When your intellectual property has to work in and for your business, patent "reform" may be telling us it is time to take a new look at combining alternative forms of IP protection. It may also be telling us to take a fresh look at contracts, confidentiality and NDA agreements, purchase order terms and conditions, and joint development relationships that were drafted during a different time period when patent protection was the chosen approach.



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