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the DISPATCH

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In this issue we discuss business and legal developments in intellectual property which have made patents and trademarks easier to obtain and protect and far stronger as strategic business assets.

Bruce Sunstein discusses strategies for patents in the following article which first appeared in *Investor's Business Daily*.


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More Firms Finding It's Smart To Manage Intellectual Property

Analysts estimate the value of worldwide IP market at $100 billion

AMY REEVES January 3, 2003 Friday

Companies are taking their patents a little more seriously these days.

Managing and capitalizing on intellectual property has become more important to business than ever. Analysts estimate the worldwide IP market to be $100 billion.

At IBM Corp., for instance, patents and licensing represent 15% of revenue. It's been moving that way for the last 20 years, ever since U.S. courts started defining and enforcing patent law.

"In the period up to about 1980, patents weren't taken very seriously," said Bruce **Sunstein,** partner at Boston IP law firm Bromburg & **Sunstein.**

The tech explosion also brought IP to the foreground, as computer and biotech firms jockeyed to be the first to patent the next great gizmo or software program.

With firms owning an abundance of intellectual property, **Sunstein** says the challenge is to plan, organize and strategize its use. Companies don't usually do that, he says.

"The traditional way patents have been handled by most companies is that an engineer gets an idea, and then it trickles over to the legal department, which says, "Oh, we should file a patent application,'" he said.

Instead, he recommends a team approach. "The patent lawyer should be working with two other types of people: the head of engineering and the head of marketing."

That's the approach taken at Hewlett-Packard Co. According to Steve Fox, HP's deputy general counsel for intellectual property, the firm has regular patent coordination meetings between engineers and IP attorneys.

"When we do this, we not only look at the strategically important things that we will make today," said Fox. "We also look at what may be important in the future as far as filling technology gaps."

In this issue

There are many strategic uses for IP. Being first to market, protecting existing market share and licensing to others are the most common. Different firms may emphasize different goals, depending on their needs.

"For some companies, getting a revenue stream isn't the first goal," said **Sunstein**. "I'm not sure that Intel makes a whole lot from licensing. They mainly use patents to keep competitors from getting into the market."

At the other extreme is a firm like Dolby Laboratories Inc., which gets much of its revenue from licensing its products to electronics makers. It succeeds this way partly because of its well-known name.

"Successful IP strategies often combine trademark rights with patent rights," said **Sunstein**.

Figuring out the IP strategy is only the beginning. You have to generate the new ideas that will become patentable.

Hewlett-Packard does this in several ways. If one of its inventors has an idea, he can fill out an "invention disclosure form" and submit it to management. Every form submitted yields a $175 bonus for the inventor, regardless whether the idea goes anywhere. If one such form is selected to be written up for a patent application, the inventor gets $1,750.

The firm also holds periodic "invent shops" where inventors get together and brainstorm ideas. Everybody has to turn in at least one invention-disclosure form before leaving.

When HP feels it needs new ideas in a specific area, it will throw an "innovation workshop." A handful of selected engineers get together for two days, learn what needs to be done and have long discussions with the help of professional facilitators. Usually these sessions end with a dozen or so invention disclosures.

As a result, HP has a truly staggering number of patents — some 17,000 worldwide, says Fox.

But sometimes, sheer volume of patents isn't the point. In biotechnology, new gene-sequencing techniques have enabled some companies to generate partial gene sequences by computer and seek patents without even knowing what they were good for.

Genentech Inc. decided to take a different approach.

The firm chose to patent only full gene sequences that its scientists had identified and tested in labs to find out how they might be used. That meant Genentech didn't get as many patents as it might have, had it patented partial sequences.

But a few years ago the U.S. Patent and Trademark Office said a patentable invention must be shown to have a specific, substantial and credible use.

"It turned out that for both scientific and patent law reasons, it was a good approach," said Sean Johnston, Genentech's vice president of IP.

Sunstein also says firms should monitor the competition's IP activity. Patent applications are available for public view a year and a half after they're filed. Watching where their rivals are heading can affect firms' IP strategies.

"It's incumbent on us to know what our competitors are doing," said HP's Fox. "If their path is going to intersect with ours, we need to protect ourselves when we do get to that point downstream."

It's also important because the rationalization of patent law in the last 20 years has meant more lawsuits. Microsoft Corp. learned this the hard way back in the 1980s, when it was successfully sued by Stac Electronics over DOS technology.

"Microsoft resolved that problem by buying Stac," said **Sunstein**. "But what happened after that was that Microsoft got quite real about getting its own patent portfolio. It didn't want to be in a situation like that again."

Fox agrees that patents have become more important.

"I think business people are reading more (about IP) than they ever have in the past," he said. "They're making sure folks have an adequate patent portfolio, and make sure they're taking advantage of it."

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The New Bull Market: Patents

During 2002, the Dow Jones Industrial Average fell over 2000 points, bears ate bulls on Wall Street, and corporate scandals rocked investor confidence. While stock portfolios lost value last year, another type of portfolio gained in value: the patent portfolio. Court decisions during the last year have made it easier for patent owners to enforce their patents and correspondingly harder for accused infringers to attack patents. The year 2002 was truly the year of the plaintiff in patent litigation. As a result, patents should become even more valuable as business assets in 2003 and beyond.

The courts issued important decisions in three hotly-contested aspects of patent litigation: (a) the doctrine of equivalents, (b) claim construction, and (c) validity challenges. In all three aspects, the courts sided with patent owners and formulated new rules that will make it more difficult for accused infringers to escape liability.

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Doctrine of Equivalents Set Free

The most discussed and most influential pro-patent decision in 2002 was the Supreme Court's *Festo* decision. In that patent infringement case, the Court relaxed rules restricting application of the doctrine of equivalents. In essence, this doctrine prevents would-be copyists from making insubstantial, hyper-technical changes or substitutions to a patented invention to avoid infringement.

In *Festo*, the Supreme Court held that a judge may not completely bar a patent owner from relying on the doctrine of equivalents if the patentee had narrowed the claims by amendment during patent prosecution. The Court replaced this "complete bar" rule with a "flexible bar" approach. Under the "flexible bar" rule, if the rationale underlying the claim amendment has nothing to do with the alleged equivalent structure, or if the alleged equivalent could not have been foreseen at the time of the amendment, then the patent owner may use the doctrine of equivalents to prove infringement.

For example, let's say an inventor applies for a patent claiming "a widget comprising a gear, five squared cogs, and a sprocket." The patent examiner rejects the claim because an earlier patent claimed a widget having three cogs. In response, the inventor amends the claim to require ten cogs, and the examiner, satisfied that ten cogs represents a new invention, issues the patent. The inventor's competitor then begins selling a widget having ten rectangular cogs. Under the old complete bar, the inventor would not be able to argue that a rectangular cog is the equivalent of the claimed square cog, even though most widget makers of ordinary skill understand that a rectangle is an insubstantial substitution for a square. Under the new rule, however, the inventor may be able to rely on the doctrine of equivalents. To do so, the inventor would argue that in amending the claim to require ten instead of five cogs, he was not surrendering equivalents to the shape of the cog. The new feature that distinguishes the inventor's new widget from the old widget is the number of cogs, not their shape. Thus, the inventor has left room to capture insubstantial variations in shape, if not number.

The Supreme Court's *Festo* decision is significant in two other ways. First, the Supreme Court reminded the Court of Appeals for the Federal Circuit not to fool with the doctrine of equivalents. The Federal Circuit—the influential appeals court that hears all patent appeals from all over the country—had attempted in a previous case to restrict the doctrine. The Supreme Court, however, used the *Festo* decision to reaffirm its prior decisions upholding the doctrine of equivalents. The Court's message is clear: the doctrine of equivalents is here to stay.

Second, the Supreme Court implicitly stated a philosophy that could result in a more liberal treatment of patents. The Court recognized that the nature of language often makes it difficult to precisely define the contours of an invention. As the Supreme Court observed, "Things are not made for the sake of words, but words for things." With this philosophy in mind, the lower courts may be more inclined to cut patentees some slack. Indeed, this philosophy has already filtered into an important Federal Circuit decision, as discussed later in this article.

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Claim Construction Becomes Ordinary

In 2002, the courts also announced new guidelines for claim construction that will ultimately benefit patent owners. Claim construction is the process of defining the literal meaning of words in a patent claim and, hence, the overall scope of protection that claim affords. Claim construction lies at the heart of every patent case and usually consumes the most time and efforts of litigants, their attorneys, and judges. In a series of decisions, the Federal Circuit has tried to inject some common sense into the claim construction process and has directed trial courts to read patents more liberally.

Under these new guidelines of claim construction, there is a "heavy presumption" that claim terms have their ordinary meanings to those of ordinary skill in the art. If the claim wording itself does not limit a claimed structure to a particular size or shape, then the court should not either. Thus, in the widget example, unless the claim says, "a sprocket with only twelve teeth," the court will not limit the number of teeth the sprocket can have. If the claim merely calls for a "sprocket," then it will cover a sprocket of any shape or size or with any number of teeth.

Now, there are only a limited number of ways that an accused infringer may attempt to narrow the scope of the claim. Basically, the patent specification or prosecution history must contain a clear disavowal of claim scope or other clear words of restriction. In effect, the inventor has to say, "this is the only way to do it, and any other way is not my invention." Only under such circumstances may a court narrow the claimed invention to a particular embodiment.

The Defense Rests

In 2002, the courts also limited certain defenses or made them harder to prove. For example, an oft-used defense tactic is to argue that the accused infringer is merely "practicing the prior art" and thus is not infringing. The Federal Circuit eliminated this defense.

The Federal Circuit also increased the burden on defendants trying to prove that the patent is invalid. In one case concerning whether a patented machine was "anticipated" by the prior art (*i.e.*, the machine was not new because it had been known or used in public by others before the patent application was filed), the defendant paraded into court six witnesses who all swore that they had seen the machine in use years before the patent application date. The credibility of these witnesses was not in question. The Federal Circuit, however, ruled that the testimony was not enough. Instead, the defendant must also provide corroborating evidence—photos, blueprints, newspaper accounts, or other physical evidence that can be reliably dated to the relevant time period. Without such evidence, the defendant cannot meet its burden of proving invalidity by "clear and convincing" evidence. Six, six hundred, or even six thousand witnesses will never be convincing without corroborating physical evidence.

The Federal Circuit relaxed the so-called "written description" requirement, which is a technical requirement that defendants sometimes use to attack patents. Under the written description requirement, the original patent disclosure must describe the claimed invention in such terms that one of ordinary skill in the art would recognize that the inventor had, indeed, conceived of the claimed invention at the time of filing the patent application.

In *Enzo Biochem v. Gen-Probe*, the patent was directed to nucleic acid probes used in tests for gonorrhea. The original disclosure described the claimed probe only by its biological activity or function—*i.e.*,

its ability to hybridize to the gonorrhea bacterium at a certain ratio—but did not describe the physical structure of the probe itself. Instead, the inventors deposited biological samples of the probe in the American Type Culture Collection and referred to that deposit in the patent. The trial court invalidated the patent for failing to meet the written description requirement—that is, the patent did not describe, in writing, the claimed probe. The Federal Circuit initially affirmed that decision but, upon reconsideration, reversed. The Federal Circuit recognized that words cannot always adequately describe certain concepts or things—especially biological matter—and thus approved the deposit as a reasonable substitute for words. The deposit proved that the inventors had, in fact, conceived of the thing claimed when they originally filed the patent application.

The import of this ruling is that it extends the Supreme Court's *Festo* philosophy to other areas of patent law. That philosophy, in so many words, is that words cannot always adequately describe an invention, so cut the inventor some slack! As a result, courts may be even more inclined to dismiss word play and other defense tactics by accused infringers.

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One Stop Trademark Registration under the Madrid Protocol

In a global economy where American goods and services are traded and used far beyond this country, trademark protection is often insufficient if it is limited to a United States registration. A US registration protects commerce in the United States. An infringer in Europe or a counterfeiter in Asia is beyond the reach of United States trademark law. That is soon to change with the Senate's recent consent to the Madrid Protocol.

The protocol establishes a single trademark filing system among signatory countries, including the United States.

In October, the Senate agreed to the Madrid Protocol, an international treaty adopted in 1989, which establishes a single trademark filing system among signatory countries. The system will be administered through the World Intellectual Property Organization ("WIPO"). Consideration of the treaty languished in three Congresses while US businesses, law professors, and economists urged its adoption. With the Senate's action and the President's signature to enabling legislation on November 2d, the protocol is scheduled to be implemented in the United States on November 2, 2003. In the meantime, the United States Patent and Trademark Office ("PTO") is required to adopt implementing regulations.

Upon implementation, an applicant for a US trademark registration will have the option of filing a second application for a relatively small fee, designating any or all of the 58 Madrid Protocol countries for trademark protection. All of the United States' major trading partners in Europe, eastern Europe, and the Pacific rim are signatories to the Madrid Protocol as are some African countries. None of the United States' major trading partners in the Americas is a signatory, but that should change with the US entry. In signatory countries, the protocol will offer simplified international trademark registration and protection – without routine need for or cost of foreign counsel to prosecute multiple trademark registrations.

Under the protocol, which is available at the WIPO website, www.wipo.org, an international trademark registration issued by the United States will be recognized to the same extent and subject to the same restrictions established by the PTO in those protocol countries designated in the applicant's filing. Upon issuance of the registration, it will carry a single registration number in all designated countries and will also have a common ten year renewal date. A designated country accedes to the US filing and international registration unless it objects to the substance of the US application within 18 months of the filing. Such an objection, however, applies only to the objecting country and does not otherwise disturb the filing in the United States or other countries which are part of the single filing.

Once a registration issues, there is a five year limitation period. During that period, any opposition, infringement finding, cancellation, or other limitation on the registration in the United States will similarly limit the registrations in the designated protocol countries. With expiration of the five year limitation, the registration becomes independent and is protected in each designated country solely under that country's law.

When an applicant applies for registration under the Madrid Protocol, it can generally designate only those countries where the applicant is engaged in commerce for the registered goods and services. However, the European Union countries use a common Community Trade Mark registration system ("CTM") which applies to all member countries. So long then as the applicant is engaged in commerce in one of the European Union countries and designates that country, a Madrid Protocol registration will apply to all of the CTM countries. Additionally, the Madrid Protocol includes a simple process for extending protocol trademark registrations to additional countries. Once a protocol registration has issued, it can be extended by application and payment of a modest fee. The international registration serves as the basis for extension. And as with the original filing, the extended registration will take effect if not objected to by a newly designated country within 18 months.

With implementation of the Madrid Protocol, international trademark registration will be efficient and cost effective and will become the norm for more goods and services. This benefits businesses and service organizations in all Madrid Protocol countries and means that more foreign companies and organizations will seek protocol protection in the US just as more US companies and organizations will seeks protection in protocol countries. At the same time, this means that trademarks and service marks will become international in scope. As a consequence, pre-filing reviews of proposed trademarks should be considerably broader than has been the practice for a single country filing. Counsel's clearance reviews should now include search and review of both US trademarks and foreign trademarks registered under the protocol. All protocol trademarks are cataloged and maintained on the WIPO website database.

Further analysis of the Madrid Protocol by our partner, Julia Huston, is available at our website, www.bromsun.com, under Julia's publications.

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ALERT To Employers: HIPAA Health Care Privacy Rule

Beginning in April, employers with health plans covering 50 or more participants are required to comply with the health care privacy rule under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA").

Six years ago, Congress passed HIPAA administrative simplification, security, and privacy requirements for health care providers, insurers, third party administrators, and employers. Federal regulators worked first on developing a requirement for use of common data and code sets for health care information. This requirement for standardized electronic data interchange ("EDI") of health care information will make administration much more efficient and may save more than $9 billion in health care administrative costs by year end 2003. The common EDI standards were implemented in October 2002, full compliance is required by October 2003. In most cases, technical assistance to employers for compliance with the data exchange standards has been provided by health care insurers or third party

The purpose of the privacy requirements is to protect and then to limit use and disclosure of personal health information to necessary treatment, payment, and health care operations.

health care administrators. So, most employers should not face significant cost or disruption for EDI standards implementation.

HIPAA's privacy mandate was the next subject for federal attention. The privacy requirements have been the source of much political debate during the last two years but are now complete and will be implemented on April 14, 2003. 45 CFR parts 160 and 164.

The purpose of the privacy requirements is to protect and then to limit use and disclosure of personal health information to necessary treatment, payment, and health care operations. Every *covered entity*, which includes health care providers, insurers, third party administrators, and employers with health plans covering 50 or more participants, must adopt and implement procedures that affirmatively safeguard privacy and limit access, disclosure, and use of personal health care information.

Apart from emergency health care and routine enrollment and payroll deduction practices of employers, all necessary uses of personal health information must be disclosed in writing and must be acknowledged in writing by the person who is the subject of this information – before treatment, payment, or health care operations such as claims submissions begin. Other uses or disclosures are not permitted without express written agreement and authorization by the person who is the subject of personal health information. Limited exceptions apply for research and data collection related to health care quality and financial analysis and for compliance with judicial and regulatory mandates.

HIPAA privacy compliance should be straightforward for most employers. It will require:

- an audit and inventory of practices and procedures used to collect and safeguard personal health care information.
- a "bright line" assessment of uses of this information and adoption of clear polices barring use and access beyond necessary treatment, payment, health care operations, and member enrollment.
- adoption of a written policy for legitimate disclosure of personal health care information and for safeguard against any other uses.
- segregation of personal health care information from other personnel and employment information so that personal health care information cannot be easily or inadvertently accessed by unauthorized users.

Failure to comply with HIPAA's privacy requirements carries substantial penalties and liability for invasion of privacy rights. So, in addition to the obvious value in safeguarding personal health care information, there is a practical need to meet and comply with the new rules.

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