

Patent Assets: Increased Emphasis, New Concerns — PART I

BY BRUCE BERMAN, MODERATOR

An unusual dialogue about patents took place recently in Washington DC. Eight prominent professionals with a common interest in intellectual property were brought together by IP think tank International Intellectual Property Institute (IIPI) to discuss patents as business tools.

The consensus of roundtable participants was that while awareness of patents as strategic business assets has increased over the past few years, a lot more work needs to be done to educate senior management, investors and regulators about how they affect performance. Standardizing patent disclosure would be a major step in the right direction.

"IP has got to be on the CEOs' radar screen as something worthy of their attention," said US PTO Commissioner for Patents Nicholas Godici, a participant. "Frankly, what we have not seen in Washington is CEOs stepping up to the plate to show that they are actually aware of intangible assets and the need to identify their importance. Either they are unaware of the problem or are uncomfortable discussing it."

Roundtable members were drawn from business, finance, law, academia, and government. In addition to Commissioner Godici they included:

- **Kevin Rivette**, patent attorney, inventor, IP strategist, and author of *Rembrandts in the Attic*, the most widely read book about patents
- **James Malackowski**, Managing Director of Duff & Phelps Capital Partners and President of the 8,000-member Licensing Executives Society (LES)
- **Marshall Phelps**, Vice Chairman ThinkFire Ltd. and founder of IBM's \$1.7 billion licensing business
- **Professor Margaret Blair**, an economist at Georgetown Law School and co-author "Unseen Wealth" with former S.E.C. Commissioner Steven M.H. Wallman
- **Harry Gwinnell**, Director of IP for Cargill, president-elect of IPO, and a former PTO examiner
- **Professor Joshua Lerner**, Professor of Investment Banking at Harvard Business School who has written about patents as potential road blocks to innovation and business development

- **Irving Rappaport**, Director of IP Licensing for Symyx, a Silicon Valley biotech company. Over the past 25 years Rappaport has served as chief patent counsel for National Semiconductor, Apple Computer, Data General and Medtronic.

What follows are excerpts from **The New Emphasis on Patent Value: Opportunities and Challenges**, which was held in Washington last summer at the Cosmos Club. (Cosmos was where the Wright Brothers stayed while they were waiting to hear from the U.S. Army about licensing their new invention.)

The discussion was organized primarily to help IIPI and its worldwide audience, including the United States Patent and Trademark Office, better understand the concerns of the IP, business and investment communities about how patent value is currently understood and utilized.

Recommendations

The edited transcript, which is now available from IIPI, contains interesting anecdotes, insights and new ideas. Among the specific recommendations and suggestions for the Patent and Trademark Office:

- **Reporting requirements should be mandatory for revenue associated with patents.**
- **Assignments should be enforced.**
- **Claims should be more readable.**
- **The PTO should play a more active role in identifying standards for IP value.**

New Emphasis roundtable participants suggest that those affected by IP challenge themselves to come up with new and better systems for identifying, monitoring and conveying intangible assets, especially patents, before regulatory bodies or potential litigants require it.

Bruce Berman,
Roundtable Moderator

DETERRING PATENT DISPUTES

MR. BERMAN: Do fewer, but higher "quality" patents mean less litigation?

MR. RIVETTE: Remember that part of the difficulty is that the amounts of money that are involved in these situations are so large that people are going to find reasons

to fight if who owns what is not crystal clear to both sides.

MR. MALACKOWSKI: I think a point relative to your question, Bruce, is the seminal change on 18 month publication of applications. If you're linking strategy to your patent prosecution effort and watching those applications for competitors, I think it will reduce litigation because you'll get to the bargaining table before the patents even issue, since you don't want to make investments in plant, equipment and products knowing that someone's got something coming down the pike that's going to shut you down.

MR. LERNER: One of the reactions I have while looking at the [USPTO] strategic plan is that there are a lot of things to really like about the proposal. But one area that seemed disturbing is the quality issue we have been discussing.

It has to do with this idea that as part of the examination process, prior art searching will be parceled out to third parties. It is not hard to imagine a situation where you'd create some sort of race to the bottom where competitive firms say, "I'll do a prior art search even cheaper than anyone else, and I'm even worse than anyone else in finding prior art that might invalidate a patent."

MR. BERMAN: But that sort of thinking about prior art searches doesn't benefit anyone, particularly the filer.

MR. LERNER: How do you see that problem being avoided? Many people point to the European Patent Office as an example of high-quality searching. One of the key elements seems to be splitting up, having one group in Hague doing the searching and the other group awarding the patents. Is the proposed change really going to push us in the right direction?

MR. GODICI: Well, one of the things that you bring up, Josh, is the EPO. We see that forty-five percent of our applications are coming from outside the United States, and what we're seeing is that many companies are not just filing in the United States but are filing around the world.

What you've got is this duplication of effort going on. So what's the problem? If you say you know, EPO examiners are doing a great search. I think that they do a very good job; those guys in Hague especially know what they're doing. Well, if they're the office of first filing and we're the

office of second filing, why shouldn't we say, 'Give me that information - that's our starting point.'

That's not to say that we're not going to polish the edges on the search or, if you know of something else, so on and so forth. But we're all getting buried under this onslaught of information and the rationale behind this is that if we keep falling behind and it takes two years or three years or four years to get a patent, that's not going to do anybody any good either. So, we've got to find a way to kind of leverage this thing, I think the rhetoric along the strategic plan of contracting out searching is going to get a little bit out of hand.

The bottom line is that the patent filing system is really worldwide, and we're just duplicating effort. We're doing the same thing over and over and over. If we could pull that all together, we'd get a better quality product.

MR. RIVETTE: I like the idea of prior art searches certified groups because you've got a lot of groups out there that have a huge depth of knowledge that you don't at the patent offices. In my book, *Rembrandts in the Attic*, I suggested something like this for software patents. Why don't we do this? You've got to place incentives with the people that will make them feel the pain of poorly examined patents. Software engineers with the open source system would love to be able to help. I believe that there are a lot of groups out there that would love to have this way to help vet patent applications. One of the things that I always look at is: who's the best person to find the prior art and who has the greatest interest in finding this art?

MR. MALACKOWSKI: On this issue of "quality shopping," if there were external examinations, to some extent we have some of those issues today and just what patent lawyer you select and what firm to file the application. Personally, I think the idea of trying to get that under control by sharing that burden is an outstanding one.

I have a question for the group regarding the concern over quality. I'm not nearly as concerned about the Patent Office as I am about the predictability of the litigation process through the Court of Appeals. To me that is where the issue of quality is important - ultimately [after Markman] it's what's going to be upheld and interpreted. So while there's no one here from the CAFC

to beat on, I'd be curious as to how others view that issue.

MR. GWINNELL: This is an excellent point. In order to insure that patents continue to be reliable business tools, the two organizations that really need to remain healthy and strong are the USPTO and the CAFC.

MR. GODICI: Some of you spoke before about raising the responsibility for IP to the level a Chief IP Officer, or CIPO, reporting to the CEO. For that to happen it's got to be on the CEO's radar screen that intellectual property is something that's important. What we haven't seen in Washington are CEOs stepping up to the plate to deal with this issue. I know Bruce [Lehman] will tell you that during his tenure [at the USPTO, 1993-1998], getting a CEO to speak about patents and some of these issues was very difficult.

MR. PHELPS: I used to run one of the trade associations for the computer industry in Washington. The fact of the matter is you could have that discussion with the IT industry's trade associations and it can rise to the level of their radar screen. I think the Intellectual Property Owner's Association [www.ipo.org], quite frankly, could help you a lot on this matter.

MR. LEHMAN: I just have to say IPO has not done this. I think IPO has been a great organization. It was desperately needed but I think there is a negative to it: the Chief Patent Counsel. In fact, its very existence reposes the responsibility for taking care of all of these things in Washington to them, and when you're a Senator or Congressman on the Hill you are going to hear from the patent counsel, not the CEO. The priority of an issue to a company is clear by the level of corporate officer doing the lobbying.

Of course, for the PTO the Patent Counsel is No. 1. He's the No. 1 customer. But for everybody else it's a different equation.

Mr. BERMAN: Is it that senior executives don't understand or don't care about these issues?

MR. RIVETTE: I think it's fair to say that business people, in general, didn't understand the importance of getting involved in the patent system until fairly recently. That's one reason why they are not patent savvy. When they were young executives, twenty years ago, patents were not important. Now that IP is important to most businesses, I

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think the next crop of CEO's will have a better working understanding of IP strategy.

MR. LEHMAN: I think that's a very important point. A shift to the attention of CFOs is beginning to occur, and the CFO is at the right hand of the CEO. I think that will make a big difference.

MR. RAPPAPORT: One of the fallouts of this current market fiasco may be that patent strategy can get CEOs off of the hook on this quarterly profits carousel they're on. When you talk about intellectual property, it is a long-term game. It is not about quarterly earnings. It takes 10 years to build a patent portfolio, and I don't care what company you're talking about. It must be built into your business strategy.

MR. MALACKOWSKI: It's only a matter of time until we have the first class action litigation against a CEO for mismanagement of his company's intellectual property. **IPT**

The 72-page New Emphasis roundtable workbook prepared by IIPi for the US PTO is available to executives, investors and others interested in intellectual property. A handling charge of \$20 covers printing and postage. A PDF version is available for free at www.iipi.org. Workbook contents include an edited discussion transcript, introductory remarks, and briefs about patent value contributed by the roundtable participants.

The International Intellectual Property Institute, www.iipi.org, is a Washington-based international development organization and think tank dedicated to increasing the understanding and awareness of intellectual property as a tool for economic growth and development. Bruce Berman, editor of **From Ideas to Assets - Investing Wisely in Intellectual Property**, organized and moderated the roundtable. Part II of roundtable excerpts will be presented in the June issue of **Intellectual Property Today**.