

Global Patent Strategy

Cultivating ideas and protecting business assets offensively and defensively.

BY DOROTHY R. AUTH,
ANDREW C. CHIEN
AND JASON M. ROCKMAN

While most entrepreneurs have dozens of “great” ideas for starting companies, in actual practice most companies are started by picking a single good idea that can be grown into a successful product. If all goes well, this initial idea provides the financial wherewithal that enables the company to take more of these ideas and nurture them into products. One way of thinking about this is that the first idea is the core of the company’s technology which produces other “seeds” that can be successfully grown into additional products. By protecting each new development along this path, the company can build a “fence” around its core which will protect its business assets both defensively and offensively.

Because the core technology of an initial good idea is so critical to the company’s future viability, it must be vigorously protected from the outset. This is the primary function of patent protection; entrepreneurs need to grasp the basics of how it works while in the process of selecting which of their “great” ideas to go for first in building their company. Patents

allow their owners to exclude others from making, using, offering for sale, importing or selling the patented item. Patents add value to a business, capable of generating millions of dollars in revenue through licensing fees and enforcement awards.¹ Further, strong IP protection discourages competitors. This article is intended to help entrepreneurs navigate the ins and outs of the early business decision-making process that will determine the value of the resulting patent portfolio on a global scale.

Building the Fence

From the outset, an entrepreneur must have an understanding of the unique niche his or her core technology represents in

the global environment of patents related to the relevant business field. One of the best ways to go about this is to answer the “who, what, where, when, why” that make up the basis for any good analysis. In building a global patent fence, the answers to these questions will flow in a different order due to the nature of patent law, but will lead to an appropriate framework of understanding the unique idea and ways to protect it. The type of application filed—and how, when and where it is filed—will have an enormous impact on the portfolio’s value.

What Type of Patent Should a Business File? Choosing the right type of patent protection is a crucial first step in creating value from an invention. Different types of protection are appropriate for different types of innovations, and different countries offer different forms of patents protection for such inventions. A standard utility patent is the mainstay in protecting an invention in the United States and around the world. Although the actual test for patentability varies slightly from country to country, generally the claims in a standard utility patent must be novel and non-obvious over all the technology that came before it. The utility patent affords the strongest, longest and broadest patent coverage for so-called “functional inventions”—new and useful processes, machines, manufactures or compositions of matter or new and useful improvements thereof.

However, a utility patent may entail a lengthy and sometimes costly examination process.² This can be a significant



DOROTHY R. AUTH, a partner and a member of the intellectual property group at Cadwalader, Wickersham & Taft, concentrates in biotechnology, pharmaceutical and medical device patent matters. She can be reached at dorothy.auth@cwtt.com. ANDREW C. CHIEN and JASON M. ROCKMAN are associates at the firm.

impediment for small companies and individual entrepreneurs. The lengthy examination process may also impact the term of the patent, in that a utility patent confers 20 years of patent protection, but the term begins the day the application is filed—although enforcement can only be effected after issuance (after examination is complete).

Because utility patents require such a large commitment of resources, many small businesses in the United States initially opt for a “provisional patent application” because it provides an intermediate stepping-stone for applicants looking to postpone much of the expense of patenting. Other than the cost of preparing the application, provisional applications are relatively inexpensive (\$150 filing fee). Once filed, the provisional application remains unexamined in the patent office for up to one year, at which time a regular utility patent application must be filed or the provisional application will lapse. The up side of the provisional application is that it allows the applicant to claim the benefit of this filing date in the later-filed utility patent application—that is, once the provisional application is filed, an applicant can generally discuss, show or even sell the product without ordinarily losing patent rights in the U.S. Provisional applications may provide a useful tool for applicants who strategically need additional time before incurring the expense of prosecuting a utility patent application in the U.S. and abroad.

Outside the United States, additional options exist for securing patent rights for functional inventions. These alternatives may be useful to address some of the drawbacks associated with a utility patent. For example, in situations where a business cannot endure the lengthy examination process for the standard utility patent, many countries, such as Australia (called “innovation patent”), China, Germany, Japan and Korea offer Utility Models. Utility Models, like utility patents, protect functional inventions but the test for patentability of a Utility Model is lower than a standard utility patent (useful to protect minor innovations).³ In addition, Utility Models are not substantively examined for patentability and therefore can issue within a matter of months. However, in litigation, utility models do not carry a presumption of

validity and therefore are more easily challenged than a standard utility patent.⁴ The term of a utility model is generally shorter than that of a utility patent, usually seven to 10 years depending upon the country.

Utility Models are particularly suitable for technologies that change rapidly, where the delay in obtaining a patent reduces its significance. Even though they are not examined, the value of Utility Models in deterring competitors can bolster a company’s competitive edge. In addition, Utility Models are useful when an infringer is known and an enforcement action must be initiated quickly to prevent market share erosion.

Finally, an alternative to filing a utility patent is available if the new product is based on a new “look” rather than a strictly functional new product. For example, the designs of the Coca-Cola bottle and Oakley sunglasses have been protected. In many countries, including the U.S., a new design such as these can be patented using a “design patent.” Design patents protect the unique look of a functional item. The new ornamental features of the product are protected in a design patent based upon the drawings submitted with the design application. Design patents are generally much less expensive to prepare and prosecute than a standard utility patent and are obtained much more quickly. However, they have a shorter lifetime (14 years from the grant date in the U.S.), and are generally limited to the exact design illustrated in the application.

How to File a Patent Application?

The process of filing a standard utility patent application starts with the filing of a complete patent application. An applicant generally has several options regarding the timing of filing in the different patent offices. For the U.S. inventor, the filing process begins at home. A U.S. applicant must file first in the U.S. Patent & Trademark Office (USPTO).⁵ This filing can be in the form of a provisional application, a U.S. national application or an international application designating the U.S.

When a national application is filed first but international patent protection is desired, an international application must be filed within one year of the filing of the national application. Established

through a multi-national agreement called the Patent Cooperation Treaty, an international application (or PCT application) is an efficient way for an applicant to file a single application to pursue patent protection in any country that is a signatory to the treaty, provided that a national application is filed in each selected foreign country within a certain time after the earliest effective filing date (generally 30 months).⁶

How an application is filed requires an applicant to consider its business circumstances. Is the product ready for market at the time of filing? Or is it still in its early stages, where additional funding is required to make commercialization feasible? Are competitors already invading commercial markets? Is the invasion occurring in a particular country? Or is there a business need to find a licensing partner?

Patent filings can address these business considerations. In the U.S., a business can delay examination to find a licensing partner by filing successive types of patent applications, e.g., by filing a provisional application followed by a PCT application, then one or more national applications. This strategy can delay most of the expenses associated with international patent prosecution up to 2½ years. On the other hand, if the business is interested in expediting the examination process, a separate U.S. and international application can be filed on the same day in the USPTO. When time is of the essence to obtain a U.S. patent, the USPTO allows accelerated examination in limited circumstances.⁷

In certain countries (e.g., Israel, Australia, Canada), the applicant can also obtain a patent by requesting expedited examination based on issued U.S. patent claims. This procedure significantly shortens the time to grant (because no examination is needed), as well as reduces the costs of procurement. In cases where an infringer exists, a separate Utility Model can be filed in certain countries (e.g., China, Germany, Japan and Korea), which will allow a business to institute an enforcement action within about a year of direct filing in these countries.⁸

When Should a Patent Application Be Filed? The simple rule of thumb when considering “when” to file a patent application is “file the application before

any public disclosure is made.” At times, this may be easier said than done. For many inventions, refinement and testing continue long after the first widget is made. But any public disclosure of an invention will create a bar to patenting somewhere in the world. For example, in Europe, disclosure of the invention anywhere in the world before a patent filing date will prevent patenting of that invention. EPC Art. 54.

On the other hand, the U.S. allows a patent application to be filed within one year of any public disclosure or sale of the invention. Certain other countries have similar grace periods; for example, Japan (6 months), Canada (1 year) and Australia (1 year). However, it is a mistake to rely on these grace periods. In today’s global market, most products require patent protection in key countries, including at least the U.S. and Europe. Once disclosure is made, patent protection options are compromised.

Where and Why Should a Business File a Patent Application? Last, the inventor must consider “where” and “why” a patent application is filed. The question of why a patent should be filed in any particular country will drive where the patent application should be filed.

“Why” a patent application is filed is typically a business decision. It is not practical to obtain protection to every innovation in every corner of the globe.⁹ Major commercial markets for the product need to be identified. For example, consider which countries will have a specific need for the product, such as medications for osteoporosis in nations with a sizable senior population or new cold weather survival gear in colder climate countries. Also, consider countries where related products already have robust advertising and marketing. Entry into these markets may be easier because the customers are already familiar with similar products.

Further, consider countries that provide reimbursements or subsidize the purchase of certain products. These will likely become important markets for the product; e.g., some countries cover the cost for certain drugs or medical procedures. Also, consider countries where competitors are manufacturing, distributing or selling competing products. Strong patent protection in

these countries will allow the business to enforce the patents against competitors’ infringing acts. Alternatively, strong patent protection in such countries can provide good cross-licensing opportunities with the competitor as an additional source of revenue. For example, Ireland provides favorable tax laws to corporations so that patentees are well advised to consider patent protection there. Each of these business issues will drive “where” patent protection should be sought.

Standing Guard

Once an entrepreneur has answered these questions and committed the company to a patent strategy, an additional burden falls on his or her shoulders: vigilance. The entrepreneur must be constantly monitoring the issuance of third-party U.S. and foreign patents and published patent applications in the company’s business space: taking notice of competing patents/applications, taking action against them where possible and warranted, and filing a patent suit in federal court if the jurisdictional requirements are satisfied. However, federal litigation often requires considerable financial resources and time.¹⁰

Other less costly avenues exist. For example, in the U.S., two procedures exist to attack a patent or patent application—either by instituting an interference proceeding or a reexamination proceeding.¹¹ The interference procedure allows a patentee to contest who was the first to invent subject matter claimed in the patentee’s patent or application as compared to a third party’s patent or application. The reexamination procedure allows a party to challenge the validity of a patent based on prior art.

A similar procedure is available abroad. In Europe, a granted patent can be challenged on a number of patentability grounds by any third party within nine months of the date of grant. Other countries, including China, Korea, Germany, Japan and Canada, provide for similar procedures. Oppositions avoid expensive and time-consuming litigation because these proceedings have limited briefing requirements and no discovery. Unlike litigation, even those who have nothing at stake can institute an opposition during the opposition period.

Conclusion

Patient but continuous effort is required to allow a seed to germinate and bear fruit. Similarly, a prudent global patent strategy requires planning and consideration of the business factors surrounding the seedling product. Careful consideration of what, how, when and where patent applications are filed will facilitate and nurture the seed, so that the resulting patents will not only deter encroaching competitors but also protect the product where protection is needed.



1. For technology-focused companies in the S&P 500, intangible assets account for nearly 80 percent of the company’s value. See Ocean Tomo statistic, at <http://bit.ly/mGsQL>.

2. The average examination pendency time was 32 months in 2007 in the U.S., 32 months in Japan and 45 months in Europe. World Intellectual Property Indicators (2009 ed.) at 45.

3. The patentability of Utility Models still requires novelty, but non-obviousness is generally easier to satisfy in Utility Models than in standard utility patents. See World Intellectual Property Indicators at 46.

4. In Australia, an innovation patent can be obtained without examination, but examination is required before instituting an infringement proceeding.

5. As businesses become more global and R&D is conducted outside the U.S., consideration must be given to foreign filing requirements where permission may be required to file the first application outside the country where the invention is made, e.g., China.

6. However, some countries are not signatories to the treaty, e.g., Argentina and Taiwan, where separate patent applications must be filed.

7. See 37 C.F.R. §1.102. Circumstances warranting accelerated examination include, inter alia, actual infringement, applicant’s health/age, or applications that enhance the environmental quality or develop energy resources. See also Manual of Patent Examining Procedures §708.02.

8. Utility Models must be filed separately from a PCT application.

9. Obtaining and maintaining patents in the 50 “major countries” can cost more than \$700,000 for just one invention. See Guffy, “PCT for the Americas” at 8, at <http://bit.ly/2Hqcl1A>.

10. As reported by patent practitioners, the median total cost for a patent litigation suit in the U.S. with less than \$1 million at risk is \$650,000; with \$1 million to \$25 million at risk it is \$2.5 million; and with over \$25 million at risk it is \$5.5 million. AIPLA Report at 29.

11. In contrast to the cost of litigation, the median total cost of a two-party interference is \$463,000, and \$188,000 for an inter partes reexamination (through appeal to federal court). AIPLA Report at 30.