MVS BRIEFS

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## In This Issue





# BILLION DOLLAR VERDICTS . . . HOW CAN PATENT RIGHTS BE THAT VALUABLE?

*by Jonathan L. Kennedy*

In August of this year, two separate billion dollar verdicts for patent infringement were handed down. Most of the United States, if not the much of the world, heard that Apple was awarded $1.05 billion in a patent infringement suit against Samsung related to Apple patents on its iPhone. Just about three weeks prior, Monsanto was awarded $1 billion in a patent infringement lawsuit against DuPont related to genetically engineered agricultural seed. Despite these verdicts, neither damage award is certain, as both cases face appeal and the possibility of damage reduction or reversal.

As of August 24, 2012—the date of the Apple v. Samsung jury verdict—Apple's damage award was the third largest patent infringement award in U.S. history. The largest award thus far was in 2009 for $1.67 billion in Centocor Ortho Biotech v. Abbott Laboratories, which was reversed on appeal. The second largest was handed down in 2007 in Lucent Technologies v. Microsoft for $1.52 billion; and that award was reversed by the presiding district court. To date no billion dollar patent infringement award has survived.

One of the questions being debated in legal communities and the media is whether a billion-dollar-plus patent damage award will, or should, ever be upheld. This is really a question whether an intellectual property portfolio can have that much value. The answer to the second question is, "Yes." However, to understand how an intellectual property portfolio can be so valuable, it is necessary to have a basic understanding of how patent damages are actually calculated.

Patent damages are compensatory and meant to remedy the loss due to infringement. There are two ways that patent infringement damages may be calculated: (1) a hypothetical reasonable royalty and (2) lost profits. Under either of these approaches the purpose is to compensate the patent holder and attempt to place it in a position as if the infringement had never occurred. There are other available remedies for patent infringement, including injunctions. But from a monetary stand-point reasonable royalties and lost profits are the primary bases for calculating the damages.

## REASONABLE ROYALTY

The reasonable royalty calculation first looks to the industry standard royalty rate for the technology. In most cases, there is no hard and fast industry standard, so the courts turn to a "hypothetical negotiation." This hypothetical negotiation is informed by a long list of factors. The ultimate purpose is to set the damages as if the patent-holder had licensed the patent to the infringer in an arms length licensing relationship.

## LOST PROFITS

The lost profit damages calculation is an approximation of the profits that the patent holder actually lost due to the presence of the infringer's product(s) in the marketplace. This is essentially based on lost revenue, i.e., the sales that the patent holder would have had if no infringing products were on the market. The basic calculation is the lost revenue minus the incremental costs of things like labor, materials, production and shipping. The lost profits calculation can include what is called the "entire market value rule." This rule permits the patent holder to include as lost revenue separate non-patented components that are typically sold along with the patented product. The following is an example. Assume a razor company has a patented razor. That company will likely be able to include in lost revenues sales estimations of the sale of the razor blades that are compatible with the patented razor.

So the next question is how much can intellectual property really be worth. In the Apple v. Samsung case, there were multiple patents in dispute. The jury verdict was based on infringement of seven patents (three utility patents and four design patents) and the damages were calculated based on lost profits. In July of 2011, Apple released its second quarter revenue and profits. Apple's revenue was $28.57 billion and reported a one-year profit of over $7 billion as it sold 20.34 million iPhones during that year. Similarly, Monsanto's reported third quarter gross profit in 2011 was $1.973 billion and in 2012 was $2.363 billion. The August 2012 Monsanto v. DuPont case was based on a single patent and other related claims. The damage award was based on the reasonable royalty calculation. Furthermore, it may be noted that both of these verdicts were against single infringers and not necessarily the entire market of potential infringers.

It is important to recognize that these recent cases are both extraordinary in

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...*continued* that they were billion-dollar company versus billion-dollar company and the market size for the related products is very large. Thus, billion dollar verdicts may be a possibility in contemporary patent law, but should not be an expectation. And while not addressing the merits, nor the basis of the August 2012 billion-dollar patent damage verdicts, it is fair to say that such large verdicts are not as surprising as they may initially seem, particularly when gross profits for the companies involved in such litigation is in the billions.

So as the old phrase goes, "the moral of the story is . . ." protect your intellectual property because it is valuable, whether that value is in the billions, millions, or thousands. Whether you're a solo inventor who invents during your hobby-time or a multi-billion dollar company, a well-crafted IP portfolio can serve you by protecting your ingenuity, creativity, and hard work as an offensive tool to protect from infringement and potentially as a defensive tool. Contact your MVS attorney with any questions you have concerning your IP portfolio.

# CONSIDERATIONS FOR FILING PATENT APPLICATIONS IN CHINA

***by Daniel M. Lorentzen***

We have been tracking a notable uptick in patent activity in China since the Third Amendments to the Chinese patent law, which went into effect in 2009. The State Intellectual Property Office of the P.R.C. (SIPO; China's patent office) reported a nearly 34 percent increase in patent applications filed in 2011 compared to 2010. The SIPO further reported that it granted 961,000 patents in 2011, an increase of nearly 18 percent over 2010. According to Thomson Reuters, China has seen a 16.7 percent increase in published patent applications from 2006 to 2010. In addition, the volume of patent applications in China in 2011 was the largest in the world—projected to reach 493,000 annually by the year 2015—and the number of applications filed in China under the Patent Cooperation Treaty (PCT) increased by 33.4 percent in 2011, placing it in the top five countries worldwide.

The SIPO has declared its goal of accepting 2 million total patent applications annually by the year 2015, which would place it among the highest volume patent offices in the world. This further emphasizes the observation that China is pushing—and largely succeeding—to become a key player internationally in intellectual property.

The Chinese patent system provides for three types of patents: inventions, designs, and utility models. Invention patents are available for "any new technical solution relating to a product, a process or improvement." This form of patent protection is analogous to U.S. utility patent, requiring novelty, inventive step/non-obviousness, and utility/industrial applicability. The term of a Chinese invention patent is 20 years from the China filing date.

Design patents are available for "any new design of the shape, the pattern or their combination, or the combination of the color with shape or pattern, of a product, which creates an aesthetic feeling and is fit for industrial application." They are similar to U.S. design patents. The scope of a design patent is defined by drawings or photographs depicting the design, although the application must include a brief explanation describing the design feature to be protected. Unlike the U.S., design patents are only subjected to an examination for conformity with formal requirements; no substantive examination is conducted. The term of design patent is 10 years from the filing date, and a design patent covers only one design incorporated into one product, although under the amended law two or more affiliated designs may be submitted together in a single application, so long as the application provides an explanation of a single core element shared by the affiliated designs.

Finally, utility model patents (the U.S. has none) are available for "any new technical solution relating to the shape, the structure, or their combination, of a product, which is fit for practical use." Like design patents, there is no substantive examination for utility model patents, just examination for compliance with formal requirements. Also like design patents, utility model patents have a term of 10 years from the filing date.

Because the subject must relate to shape and/or structure of a product, utility model patents are not available for methods or chemical compositions. However, for physical products, utility model patents represent a quicker and cheaper alternative to invention patents. Because utility model patents are not subjected to substantive examination, they can be granted in as little as three months, compared to an average of two and a half years for invention patents. In addition, because substantive examination is not conducted, utility model patents will generally be less expensive to obtain compared to invention patents. The trade-off for prompt procurement is a diminished duration: utility model patents offer protection for only half the term of an invention patent.

Under the Chinese patent laws, foreign persons with fixed residences or businesses in China and foreign-owned businesses located in China are treated the same as Chinese citizens for purposes of application. For foreign persons or businesses not having a fixed residence or business site in China, Chinese patents can be obtained in accordance with the Patent Cooperation Treaty (PCT) or other treaties to which both the United States and China are signatories. For U.S. utility patent applications, Chinese applications would generally be made through the invention patent system.

Because China is not a signatory to the Hague System for the International Registration of Industrial Designs, international industrial design patents are not registerable in China. Thus, protection of industrial designs must be obtained through the Chinese domestic application system. A Chinese design patent application made within 6 months of filing a U.S. design patent application may claim priority to that U.S. design patent application.

A Chinese national phase utility model patent application may be filed based on a PCT application, but such entry must be made within 30 months of the priority date of the PCT application, or 12 months from the filing of any other national phase application based on the PCT application. In addition, the national phase utility model application must include a copy of the published international application and international search report, a verified Chinese translation of the specification and claims, a copy of the international examination report, any proposed amendments at the time of the national phase entry, and a Power of Attorney signed by the inventor or assignee. It is important to remember that under Chinese patent law, however, when initiating entry into the national phase, the applicant has to choose one form of patent—either invention or utility model—as its national phase application.

Chinese patent protection is becoming increasingly important, and in particular for people and companies doing business in China. The three types of Chinese patents can be employed, like patents in the U.S. and elsewhere, to facilitate optimal utilization, and to protect technological innovation from infringement and appropriation. Given the geographic limits of U.S. patent law, this can be especially significant for U.S. companies that produce or sell products in China, or with competitors that do.

A related reason to consider Chinese patent protection is for protection against potential litigation in China. In particular, recent concern over smaller Chinese companies that take on bigger, usually foreign companies, in sometimes questionable patent cases highlights additional benefits for filing in China. These companies are generally less interested in practicing, using, or making a patented invention than making money by suing, often by exploiting the utility model patent process. Although they do not necessarily represent an unmanageable threat, they do underscore the important considerations for pursuing Chinese patent protection as a defensive and risk management tool.

# TRUE OR FALSE: THE MINUTE A U.S. PATENT EXPIRES, YOU CAN MAKE, USE, OR SELL IT WITHOUT ANY RISK?

## INTRODUCTION

It seems a "no-brainer" to answer this question "true." The surprise is that the answer can be "false." The making, using, offering to sell, or selling a component of an expired patent does not guarantee against all claims of infringement.

## HYPOTHETICAL

The best way to illustrate this point is using a hypothetical example. Clampco, Inc. ("Clampco") patents a clamp that can be locked onto another component, or released, by hand instead of using tools ("Clampco patent"). Worldwide Bicycle Co. ("Worldwide Bikes") makes bicycles including bicycle seats. Several years after Clampco gets its clamp patent, Worldwide Bikes obtains a patent on a quick attach/release bicycle seat ("Worldwide patent"). The Worldwide patent covers the combination of a bicycle seat, a bicycle seat post (that fits onto a bicycle frame), and a clamp that can be locked or released by hand. The Clampco clamp is a perfect clamp for the Worldwide Bikes patent combination. The Clampco clamp patent, now expired, did not suggest it could be used with a bicycle seat but by chance the main market for the Clampco clamp is for the Worldwide Bikes patented bicycle seats.

## SHORT ANSWER

So long as the Worldwide patent exists, anyone that makes, uses, offers to sell, or sells the combination of bicycle seat, post, and Clampco clamp can be sued as a direct infringer of the Worldwide Bikes patent. This is true even though the Clampco clamp patent has expired!

Perhaps more surprising, anyone that either (a) advertises that a Clampco clamp can be used for the Worldwide Bikes patented seat or (b) simply makes the Clampco clamp, also has the risk of being charged as an infringer—even though they personally are not making the combination of seat, post, and clamp. Patent statutes 35 U.S.C. §271(b) and (c) allow a patent owner to charge another party with either "inducing" infringement of an existing patent or "contributing" to infringement. Thus, even Clampco, who had patented the Clampco clamp (but now is expired), may be at risk in this hypothetical set of facts.

## REASON

Even though Clampco patented their clamp, they might not be able to make, use, offer to sell, or sell it if it infringes somebody else's patent.

Why does this apply under our present hypothetical when the Clampco clamp patent expires? It applies in the sense that Worldwide Bikes got their patent on the combination of a clamp and a bicycle seat. That patent is still alive. Worldwide can prevent anyone else from making, using, offering to sell, or selling that patented combination. Therefore, if you make that combination using the Clampco clamp, you infringe.

How can that be fair? The answer is that the Worldwide Bikes patent does not cover every possible use of the Clampco clamp—only in the combination of the patented bicycle seat. Therefore Worldwide Bikes does not dominate every conceivable use of the Clampco clamp but only what the U.S. Patent Office found to be a new and non-obvious bicycle seat that uses the clamp. Remember the hypothetical includes the fact that Clampco never disclosed or suggested in their patent use of their clamp with the bicycle seat.

And what about the fact that Clampco does not build bicycle seats? As indicated above, U.S. patent law extends the definition of what can infringe to not only making the whole bicycle seat combination of seat, post and clamp ("direct infringement"), but also to "inducing" or "contributing" to infringement.

What this means is that if Clampco even advertises or suggests to other parties that their clamp should be used with patented Worldwide Bikes seat/post/clamp combination, Clampco risks being charged with inducement of infringement. If Clampco, through advertising, sales people, or even sometimes word-of-mouth; suggests use of their clamp with the Worldwide Bikes patented combination, there is risk. This can be so even though all Clampco is making, using, offering to sell, or selling is a clamp covered by their expired patent.

Perhaps even trickier is the risk Clampco could be considered a contributory infringer. This third type of U.S. patent infringement basically says that if a part of a patented combination is specially manufactured for use in a still patented combination and not a staple, common article of commerce (does not have a substantially non-infringing use) there can be infringement. In terms of the hypothetical, the Clampco clamp patent disclosed general clamping uses but did not teach use with the bicycle seat. But in the marketplace, it was the only real and practical use of the Clampco clamp. This puts Clampco in dangerous water. It would be difficult to demonstrate that the clamp has substantial uses outside of the patented bicycle seat combination. To be clear, this hypothetical presents a narrow set of facts. It is not very common that a component has only one use. The problem with the contributory infringement statute, however, is that there is no bright line test.

## TAKEAWAYS

As with most legal issues, there can be scenarios which, on the surface, may not seem logical or fair. This article is simply intended to bring to light one of those perhaps counter-intuitive legal exceptions. But here are some basic "rules" regarding this difficult question:

1. Just because a patent expires does not mean it can be made or copied with guaranteed freedom to commercially exploit it.

2. Even your own patent expiring does not give you (or anyone else) absolute freedom to commercialize it.

3. To reduce risk of inducement of infringement, avoid advertising or suggesting specific uses of products you make if there is any chance any such use is a patented combination.

4. To the extent you can, document there are a variety of practical uses of your manufactured component to bolster a defense (if needed) that you are making a component that has at least several substantial hopefully non-infringing uses.

Note: there are "exceptions" to the "exception." In the example of the hypothetical, Clampco likely would not be a contributory or inducer of infringement if the Clampco clamp used with the patented bicycle seat is expected to wear out well ahead of when the whole bicycle seat combination would wear out. This is called the exception of "permissible repair." Clampco should be able to, with low risk of infringement, sell the Clampco clamp to persons that have bought the bicycle seat from Worldwide Bikes (and are thus authorized, licensed users under the Worldwide Bikes patent). The main risk of trouble would be if Clampco advertised or sold Clampco clamps to bicycle seat manufacturers that might be infringers of the Worldwide Bikes patent.

# NEW SATELLITE OFFICES FOR THE U.S. PATENT AND TRADEMARK OFFICE

*by Kirk M. Hartung*

In July 2012, the U.S. Patent and Trademark Office (PTO) opened the first satellite office in its 200+ year history. This office is in Detroit, and additional new offices in Dallas, Denver and the Silicon Valley in California are scheduled to open in 2013 and 2014.

The Detroit Office will be named the Elijah J. McCoy United States Patent and Trademark Office, after a 19th century African-American inventor. The Detroit office will initially focus on patent applications with mechanical and electrical engineering applications.

One of the objectives of creating satellite offices is to speed up the application process and reduce the backlog. The Patent Office has approximately 650,000 patent applications waiting for examiner review. This represents a decrease of from 760,000 pending applications in January 2009. According to 2011 statistics, the average patent pendency is 34.5 months, a substantial increase from the 18-month average in 1990. Another objective of the satellite offices is to encourage face-to-face meetings between the examiners and inventors and their patent attorneys.

The PTO, which is headquartered in Alexandria, Virginia, employs more than 10,000 people, including 6,650 examiners. This federal government agency also plans to hire nearly 1,500 new examiners.

Patent applications will still be filed through the electronic database at the home office, and then will be distributed to the satellite offices. The regional offices were selected based upon numerous factors, including geographic diversity, regional economic impact, ability to recruit and retain employees, and the ability to engage the intellectual property community. The four satellite hubs will provide coverage in all four time zones for the continental United States.

The satellite offices will create new opportunities across America for a technical workforce of engineers and scientists, without the need for them to move to the Washington, DC area.


The U.S. Patent and Trademark Office plans to open four branches across the U.S., a first for the agency. The expansion is meant to speed patent application process and improve U.S. competitiveness.
CREDIT: U.S. Patent and Trademark Office

# MVS HELPS SANDY STORM VICTIMS

MVS is pleased to have partnered with one of our clients, Outreach Inc., in providing meals to the victims of the super storm Sandy. Outreach is an Iowa company founded and headquartered in Union, Iowa. Outreach organizes events with volunteers to package meals for those in need around the world. These meals include macaroni and cheese or beans and rice, both fortified with vitamins and minerals so as to meet many of the federal daily recommended intake guidelines. The meal formulations are the subject of a pending patent application. Recently, an Outreach event packaged approximately 300,000 meals which have been sent to the East coast to help feed those who have lost their homes in the storm. MVS has supported Outreach to help cover the costs of shipping these meals to New York and New Jersey. Since its founding in 2004, Outreach has packaged over 200 million meals. For more information on Outreach, Inc., please visit their website at www.outreachprogram.org.

# WE'RE THERE

### October 23-24

MVS was a sponsor of and Kyle Coleman and Luke Holst attended the Enterprise Institute Innovation Expo in Sioux Falls, SD where Kyle served on the Patent Attorney Panel regarding the Top 10 IP Questions.

### October 24

Jonathan Kennedy volunteered as a judge at the Iowa Middle School Mock Trial Competition in the Des Moines region.

### October 25-27

Kirk Hartung attended the LEGUS Fall meeting in Buenos Aires, Argentina.

### October 29

Jeff Harty spoke at the University of Iowa College of Law as a guest lecturer on "TM law from an outside counsel's perspective."

### October 31

Scott Johnson spoke as a guest lecturer on the "Introduction to IP" at an Iowa State University Pre-Law class in Ames, IA.

### November 15

MVS was a sponsor of and members attended the Iowa Women of Innovation dinner and awards ceremony at the Marriott Hotel in downtown Des Moines, IA.

### December 7

John Goodhue, Kyle Coleman, and Luke Holst will present at the National Business Institutes "Find it Fast and Free on the Net: Strategies for Legal Research on the Web" seminar in Cedar Rapids, IA.

### December 14

Edmund Sease will attend the Federal Practice Seminar in Des Moines, IA.

### February 27 – March 2, 2013

Jill Link will attend the Association of Technology Managers (AUTM) Annual meeting in San Antonio, TX.

### April 7-11, 2013

Jonathan Kennedy will speak at the American Chemical Society (ACS) National Meeting in New Orleans, LA.

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