

IP BUSINESS

WINTER/SPRING 2004

PRIOR ART: Knowing Where (and How) to Look
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MUSIC DOWNLOADS: The Corporate Response
EUROPEAN PATENTS: Why They're Different

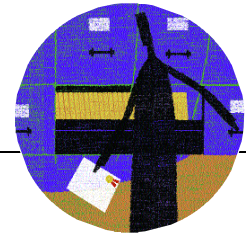


A GLOBAL

Where to file
When to file
WHETHER TO FILE

IP TOOLKIT

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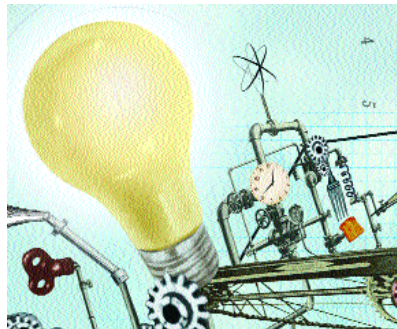


Life, Liberty, and the Pursuit of Patents

For Americans, patents are akin to life, liberty, and happiness—individual rights all but guaranteed in the Constitution. If you're the "first to invent," and you can prove it, then the patent is yours, the profit is yours, the fame and the glory is yours. The individual inventor is heralded, and the infringers are brought to justice.

Not so in Europe, where patents are more commonly seen as tools of government policy. As they shy away from litigation and reward the patent to the company that is "first to file," Europeans are more likely to use the patent system as a means of encouraging innovation, ensuring competition, and, in their eyes, balancing the needs of the individual and society. As Christian Breuer, a senior partner in Hale and Dorr's Munich office told *IP Business* reporter Peter Haapaniemi, "there is something of a protective quality in the European use of intellectual property."

As IP becomes a more important and strategic tool for businesses (regardless of where they're headquartered), understanding how IP rights are viewed—and enforced—around the world is increasingly critical. In this issue, then, we've not only provided the framework for a global IP toolkit (page 2), but we've also delved into the European IP psyche (page 6), explored the issues posed as IP moves beyond conventional borders by spanning cyberspace (page 10), joined the search for prior art (page 12), and touched on such controversial issues as music downloads (page 16).



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Custom Publishing Council

UNCHARTED TERRITORY

**The international IP
landscape is tricky,
but a few guidelines
can help companies avoid
trouble as they move
into world markets.**

By Peter Haapaniemi

Illustration by Victoria Kann

In 2002, a European high-tech manufacturer was sued for patent infringement in the U.S. International Trade Commission court by a Japanese high-tech company. The European company filed a counter suit in the U.S.—and things quickly escalated from there.

“Before long, there were cases in California, in Taiwan, in Europe, in Korea—and they’re still going on,” says James Lampert, chair of the Intellectual Property Department at Hale and Dorr, who worked on the cases. “These are all patent litigation cases directed at the same machinery, but the market positions and patent positions of both sides are different from place to place, and the rules for getting and enforcing patents are different. And that just raises all kinds of complexities. When it comes to patents, we’re really in a worldwide competitive situation that can be very complicated.”

The problem: Although efforts to smooth the flow of goods and capital across borders have made tremendous strides, the international patent system has simply not kept pace. “Basically, the difficulty for businesses is that business decisions are increasingly made on a regional or global basis, but the IP legal framework is national,” says Francis Gurry, assistant director general at the World Intellectual Property Organization (WIPO) in Geneva, Switzerland. “If you want to have complete international patent coverage, you really have to go through the process of filing a separate national application in 180 countries.”

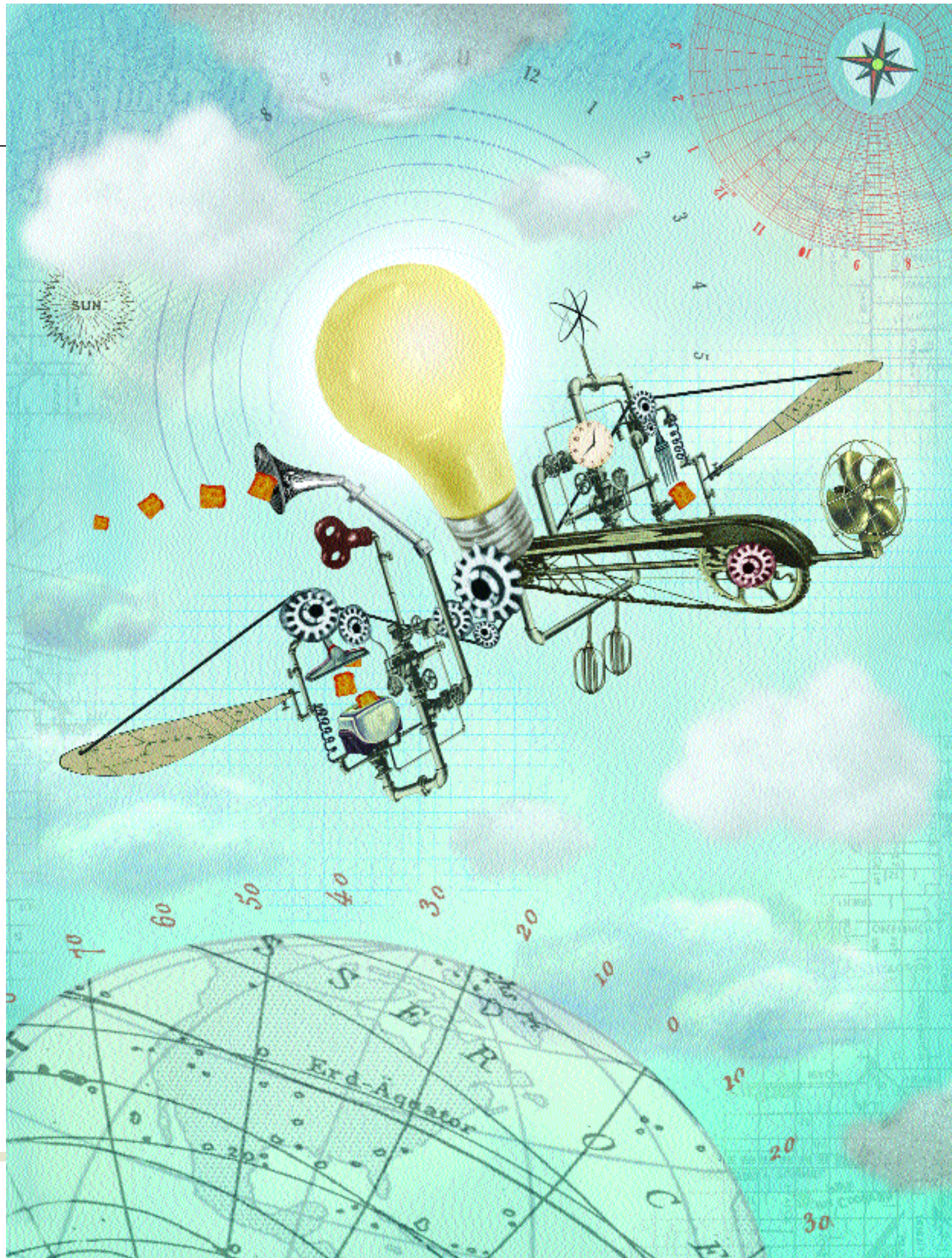
Although very few, if any, companies are going to file in 180 different countries, most do file in different countries in Europe, Asia, and North America. As Herbert Wamsley, executive director of the Intellectual Property Owners Association in Washington, D.C., explains, this is both costly and time-consuming, in part because of the sheer size of the effort, and in part because of the complexities of dealing with a variety of patent offices and pro-

cedures. But just as troubling, Wamsley adds, is the uncertainty created by that fragmented global system. “Patent rights frequently are of uncertain validity or scope, making it difficult to decide whether to invest in new products and causing unnecessary litigation,” he notes.

In short, the global IP landscape is not easy to navigate, but there are fundamental rules and strategies that can help make it easier—and somewhat more predictable. Here’s a road map:

Tighten Your Focus

It’s always wise to do a cost-benefit analysis before filing for a patent, but it’s especially critical when a company is looking at international patents and targeting the right markets can lead to significant savings. “You don’t need patents in every country,” says Lampert. “You should start by determining what the potential major manufacturing countries and the major market countries are for your product. If you have those tied up, you really



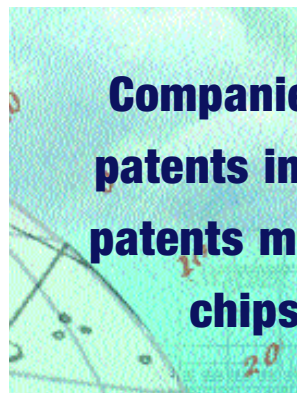
don't need the rest. If you have protection in France, Germany, and the U.K., for example, what is the likelihood of having real competition in the rest of western Europe?"

Lampert also recommends that companies think ahead when making such assessments. For example, patent enforcement has been an issue in China—but changes are under way in that country's patent system, and filing there today could give a company a leg up as that huge market evolves. Companies should also consider countries where patents might be used as trading chips in negotiating patent licenses from other companies.

Lampert says that it's also important to keep an eye on foreign patents, and adjust your approach as the business situation changes. "A lot of larger companies will find that their patent maintenance budget can grow very rapidly, and can quickly become a major portion of their overall patent budget," Lampert explains. "That means that they are spending much of this available money keeping existing stuff going rather than on pursuing and protecting new ideas. So you have to keep figuring out what stays in the patent portfolio and, frankly, be ready to cut some losses and do some pruning."

Use It or Lose It

U.S. companies often file defensive patents—that is, patents that they don't use, but instead maintain in order to discourage infringement cases from competitors. In many countries, howev-



Companies should also consider patents in countries where these patents might be used as trading chips with other companies.

er, that approach can run up against compulsory licensing, which essentially means that the government can decide to allow other companies to get a license for a patent if that patent is idle for a certain amount of time—usually a few years.

"In the U.S., a company can get a patent and never do anything with it and no other company can do anything with it either," says Edward Grieff, a senior partner in the Washington, D.C., office of Hale and Dorr. "But in some countries, that kind

of defensive patent strategy does not work, because another company can practice the patent if you don't."

Watch What You Say

In the U.S., when you make an invention public—by offering it for sale, using it, or publishing information about it—you have a one-year grace period to file a patent application. Not so in many countries, where the "absolute novelty" standard says that once an invention is made public, it can't be patented.

"In most of Europe—and, since 2000, in Japan—if you sell something or publish a paper about an invention before you file your application, you are too late," says Lampert. "The U.S. tends to split the baby, saying that a paper published anywhere in the world is prior art, but activities such as selling the invention count only in the country where the selling takes place. So delivering a product in Europe or Japan probably won't kill your chances for a patent in the U.S. unless there is a publication, but it could hurt you in Japan and Europe. On the other hand, simply offering an invention for sale in the U.S. may have no effect in Europe or Japan but will start the prior art clock in the U.S. If a U.S. company is thinking about filing international patents on a product, it's best to file sooner rather than later—before the salespeople begin talking to the customers about the invention or marketers begin working on early beta versions with customers.

File Now, Pay Later

To help simplify the filing of patents, 123 countries have signed on to the Patent Cooperation Treaty (PCT), which lets inventors file one international patent application in a PCT member country and designate other countries where they plan future filings. Those companies still have to go through the process of getting patents in each individual country, but the PCT gives them up to 30 months to file in those places. "You at least have certain things done centrally and internationally—there's a single application, one language, and one international search at that stage," says WIPO's Gurry, whose organization administers the PCT.

In essence, a PCT application gives the inventor more time to determine the likelihood of getting a patent in a given country, line up business partners, and decide where to spend the money to go through the complete patenting process. Even if a company does decide to get patents in many countries, the PCT application lets it put off paying those often-significant filing fees. "The big money on worldwide filings is the multiplier from applying in many countries," says Lampert. "The PCT basically

lets you delay the point at which that multiplier goes into effect.”

Filing under the PCT has become an accepted best practice, and some 114,000 PCT applications were received last year. With an eye to that increased usage—and the growing complexity of many applications—WIPO is now working to modernize the PCT. Among other things, Gurry says, “we’re trying to use information technology as much as possible in the way in which data flows around the international patent system.” That effort has already borne fruit: In August of 2003, WIPO began accepting fully electronic applications from several members under a pilot program, and the organization plans to make electronic filing available to all members by the end of the year.

A Larger Pool

Although patent prosecution and enforcement is generally handled on a country-by-country basis, officials in each country are not blind to what’s going on beyond their borders. In reality, says John Regan, the Boston-based co-chair of Hale and Dorr’s Intellectual Property Litigation Group, “courts and patent offices will pay attention to what’s happening in other courts and jurisdictions in other countries.”

Regan cites the concept of “parallel proceedings,” which says that evidence in one case can affect another pending case. Traditionally, that situation has come up when a criminal and a civil case about the same matter are under way, but it can also apply to international patents, because rulings and prior art that surface in one country can have an impact in another. “Before you start a patent infringement case in one country, you need to assess the foreign patents that are pending or have been issued and how evidence in those cases might affect you,” Regan says.


That reality also complicates the search for prior art, because companies must consider a much larger pool of information. “When you are dealing with a global environment, you also have the issue of translation, because there can be prior art out there that’s in Japanese or Russian or any number of other languages,” Regan says. “If it’s out there and it’s known and published, it could be important prior art. So this raises questions about the scope and cost of prior art searches: Basically, how far do you go?” The answer, currently, is that no one really knows.

Harmonization, Eventually

The harmonization of patent rules across countries has long been discussed by various governmental and international bodies, and progress is being made—slowly. Rather than sweeping change, the harmonization movement is more of an evolutionary process, with individual pieces of the puzzle—like the PCT or the pend-

ing European Community-wide patent process—being put in place one at a time.

Currently, much of the discussion is focused on a proposed Substantive Patent Law Treaty (SPLT), which attempts to harmonize some basic rules in order to make the patent process more consistent and predictable across countries. For that, says WIPO’s



Delivering a product in Europe or Japan could keep you from getting a patent there, but it probably won’t kill your chances in the U.S.

Gurry, “you need a common understanding of the conditions you have to satisfy in order to obtain patent protection.” In general, countries agree that an invention must be novel—that is, it must be new, it must involve an inventive step and be “non-obvious,” and it must have some utility. “The problem,” says Gurry, “is that there is not uniform harmonization about the meaning of those three terms throughout the world.”

The SPLT is designed to forge a common understanding of such terms in order to reduce redundant efforts in the international patent system. Ideally, says Gurry, “when an invention comes before the U.S. Patent and Trademark Office (USPTO) and it’s already been examined in the European Patent Office, the USPTO can say, ‘We mean the same thing about whether something is new and whether it’s non-obvious, so we needn’t do all this again.’” Gurry adds that the treaty is likely to reduce business risk by making it easier for companies to know ahead of time if an invention will be patentable in several countries.

It’s an area where patience is key, because such efforts require a consensus of numerous countries, cultures, and interests. The SPLT may become effective within a few years, while deeper harmonization of practices across patent offices is probably a decade or more away, experts say. But global business opportunities continue to unfold today. “So for a lot of companies, this is an area where you have to keep moving ahead,” says Lampert. “The rule is, make sure that you move carefully.”

Farmington, Michigan-based business and legal journalist Peter Haapaniemi is a frequent contributor to IP Business.

The Great Divide

There are profound differences in the ways the U.S. and Europe approach patents—and American companies can profit from an understanding of the European IP mindset.

By Peter Haapaniemi

Illustration by Jerzy Kolacz

In the U.S., if you are the first to come up with a patentable invention, you are entitled to the rights to that invention—even if someone beats you to the patent office. In Europe, however, it doesn't really matter who thought it up first—what matters is who files for the patent first.

The differences in these two approaches—known, appropriately enough, as the first-to-invent and first-to-file systems—is “an old chestnut of contention” between the U.S. and European IP communities, says Robert Barry, the European Head of Intellectual Property Litigation in Hale and Dorr's London office. But the issue is based on much more than a difference in administrative styles—and for two decades, it has been a major stumbling block for efforts to harmonize the U.S. and European patent systems.

From the European perspective, Barry says, “the advantage of first-to-file is that it's perfectly clear what was filed on a particular date in a particular patent office—there's no doubt about it.” Worrying about who was first to invent something, on the other hand, is imprecise and messy, and leaves the door open to questions and disagreements, he says. From the U.S. perspective, however, the first-to-invent approach rewards the actual inventor, rather than the first one to make it to the patent office.

Beneath that disagreement is a basic philosophic difference in the way patents are viewed in the U.S. and Europe—one

that has a variety of practical implications for Americans wanting to protect their intellectual property overseas. And there are plenty of Americans wanting to do just that, with some 27 percent of the applications reaching the European Patent Office coming from U.S. residents. More can be expected, as the European Union expands next year into a single market spanning 25 countries. Those inventors with a firm grasp of the European IP mindset will be well positioned to make the most of the business opportunities across the Atlantic.

Legal Vehicles v. Individual Rights

“In Europe, businesses tend to acquire and use IP rights on a far more defensive rather than offensive basis,” says Miles Gaythwaite, consultant in Hale and Dorr's London office. “It's a bit like taking out an insurance policy: You hope you will never need to use it and that your patents will stop the other side from trespassing into what you regard as your area. Whereas in the states, IP rights seem to be a far more offensive weapon. People are more willing to regard them as live ammunition, ready to throw.”

That difference stems in part from a traditional European aversion to going to court, Gaythwaite explains. “Europeans tend to regard litigation as something one uses only if absolutely necessary, while Americans tend to regard it as a normal and useful tool of doing business,” he



says. To a large extent, that's because damages in patent litigation in Europe tend to be lower—they are not intended to punish wrongdoing, but rather to put the parties in the position they would have been before any patent infringement. At the same time, the downside risk is typically higher, because losers in European courts often pay the bulk of the opponent's legal fees. "So litigation is a very expensive pastime here," he says, "which means you have to be very sure of your grounds before you start."

That makes the first-to-invent approach problematic for European businesses, because quite often, determining which inventor came up with an idea first involves complicated hearings and the

courts. "If you take the view that litigation is a desirable, worthwhile pursuit, then by all means first-to-invent makes sense," Gaythwaite says. "But most of the rest of the world thinks it's a bad idea." Indeed, the vast majority of countries follow the European approach in general—and other than the U.S., the Philippines is the only large country that relies on the first-to-invent standard.

Beyond differing appetites for litigation, Europe and the U.S. tend to have distinct views of the patent's role in business and society. In the U.S., the patent is in a sense more personal—a kind of individual right guaranteed in the Constitution. In Europe, it is seen more as a legal vehicle that's designed to

encourage the dissemination of inventions, as well as ensure that inventors are rewarded for their work. Thus, in most European countries, patents are filed in the name of the company that employs the inventor, rather than the individual inventor, while in the U.S., applications name the inventor, who then assigns his or her rights to the invention to his or her employer.

Overall, the European philosophy views the patent system as a tool of government policy—a way to encourage innovation, ensure competition, and balance the needs of the individual and society. "There's an understanding in Europe that too many patents could limit the market and make it harder for small or

In the U.S., the patent is a kind of individual right guaranteed in the Constitution. In Europe, it is a legal vehicle designed to encourage the dissemination of inventions.

mid-sized players to be active and succeed in a market. So there is something of a protective quality in the European use of intellectual property,” says Christian Breuer, a senior partner in Hale and Dorr’s Munich office.

This relatively conservative approach to patents leads to several practices that surprise U.S. companies working in Europe. For example, most European countries have provisions for compulsory licensing—that is, if a company is not using its patent, the government can step in and license it to someone else. In addition, maintenance fees are paid on an upward-sliding scale that discourages the holding of patents for extended periods of time. “In general, patents in Europe are still much more expensive than patents in the U.S., and you have to pay maintenance fees that increase year-by-year,” says Breuer. “The reasoning behind this is to avoid the harm to the economy that comes from not having the know-how and technology available to the whole market.”

What’s more, when patent cases are litigated, they are often handled in specialist courts, where, from an American point of view, things are done very differently than they are at home. “In Europe, we can’t see how lay people could really understand the technical issues and complex action. It makes more sense for somebody who is experienced in IP to be hearing IP cases,” says Breuer. Procedures vary by country, but there typically aren’t jury trials in Europe for IP litigation; the use of witnesses and depositions is minimal and reliance on written documents heavy; and outside of the U.K., there is no discovery process for getting evidence from the other side. In general, proceedings

tend to be focused and fast. “In Germany, for example, an oral hearing in a patent trial normally takes no more than an hour or two,” says Breuer.

A Dim View of Methods

Perhaps the most widely publicized—and illustrative—difference between the U.S. and Europe is in the treatment of business methods and software. In the U.S., both are in themselves patentable, and a growing number of such patents have been issued in recent years, driven largely by the rise of Internet-related business prac-

tices. In Europe they are not patentable, unless they are bundled with an actual technical device, such as a computer.

That position has long been based on the European Patent Convention of 1973, which specifically prohibits the patenting of “schemes, rules, and methods for performing mental acts, playing games, or doing business, and programs for computers.” Today, there is considerable discussion among European IP practitioners about softening that stance—as well as significant and vocal political pressure against doing so, not the least of which

The Devil’s in the Details

U.S. patents demand more up-front work.

Just as U.S. companies need to know about the European IP landscape, European companies might want to do some homework on the U.S. patent system. In particular, European companies need to understand that filing in the U.S. typically means more than just modifying their home-country applications, says Hale and Dorr’s Miles Gaythwaite. While European patent offices tend to allow fairly sketchy explanations of inventions, the U.S. requires detailed descriptions and disclosure of the “best method” of using the invention. The description essentially has to be thorough enough “that some bloke in his potting shed could actually reproduce the invention,” says Gaythwaite. “It’s all got to be spelled out.”

Basically, the U.S.’s “first-to-invent” approach requires that more work be completed up front, before applying for a patent. “You want to get as early a date as possible in Europe and perhaps file before all the details of the invention are fully worked out” says Gaythwaite. “Yet you are obliged to go into great detail for the U.S. So you’ve got to be sure that within the year after you file the European application, you really prepare the final specifications to meet the stringent U.S. standards.” It may seem like a lot of extra work—but, he notes, “for almost every industry, the U.S. is going to be your largest market. So it’s worthwhile to take great care in the preparation of your U.S. application—it could be more important than the patents you obtain anywhere else.”

“Europeans regard litigation as something one uses only if absolutely necessary,” notes Gaythwaite. “Americans regard it as a normal and useful tool of doing business.”

comes from the open software community, which says such a move would hurt smaller companies and software developers.

A proposed draft of a new patent law was recently put forth to modify the 1973 prohibition. But when the draft—known as the Directive on the Patentability of Computer-Implemented Inventions—came before the European Parliament in September, it was quickly loaded up with amendments intended to reaffirm the prohibition against software and business methods patents. “We do want strict limits on patentability of software. All the amendments that were adopted were in this direction,” Arlene McCarthy, a U.K. member of the European Parliament, told reporters. She added that the amendments were “averting a slide towards the more liberal patent regime in the U.S.”

Although such positions can be frustrating to U.S. companies, there’s a solid logic behind it, says Hale and Dorr’s Barry. “The purpose of the patent is twofold: First, to reward the investment of the inventor, and second, to encourage the dissemination of new information and technology.” The patenting of business methods doesn’t serve either purpose, he says. “Companies generally don’t do a lot of R&D to come up with new business methods—it’s a part of normal business. They might be really clever ideas, but they aren’t the sort of things that result from a big investment in research that the company needs to recoup.”

Nor are published patents needed to make new methods widely available. “The fact is that it’s almost impossible to keep business methods secret, because in the course of transacting business, it’s apparent to everyone what’s going on, Barry



says. “So from a European perspective, the rationale for patenting business method inventions seems to be weak.

“The best incentive for coming up with good business ideas is not the patent, but the need to keep ahead of the competition,” Barry adds. He points out that broad patenting of business methods in the U.S. is a relatively recent phenomenon and notes that “the U.S. has led the world in business for a long time without having had business method patents. So why is there suddenly a need for them?”

Uniting Europe

Although the European countries are largely in tune in terms of their philosophical view of patents, there are various procedural and process differences among nations—and Americans should realize that there is by no means a unified, patent regime across Europe, says Mark Haftke, a senior partner in Hale and Dorr’s London office. “Europe is often seen by Americans as being a single entity, and certainly it is moving that way. But we still have a lot of fragmentation and differences between member states.” To a large extent, applicants have to deal separately with those various rules and regulations. The current European patent, which is obtained through the European Patent Office, is

“something of a misnomer,” he says.

Rather than a single patent, it is in fact a method of obtaining a bundle of identical national patents, with one filing date. The actual granting and enforcement of patents has to be pursued separately in each country.

Not surprisingly, many companies have high hopes for the planned Community Patent, which is designed to make it possible to get a single patent across the European Community (EC). However, says Haftke, “what has been agreed at this point is a political compromise, which seems to make the Community Patent less attractive.” For example, the Community Patent may include a requirement to translate the claims of applications into all EC languages; such translations could be many thousands of pages long, thus making filing costs highly prohibitive for smaller companies. In any case, the Community Patent is still a few years off, and there is a lot of “huff and puff” around it, says Haftke. But, he adds, “the European Commission has decided to pursue it, and that in itself is a big step forward.”

In the meantime, U.S. companies need to do their homework before entering this evolving landscape. “You need to take a coordinated approach to European patents and understand the whole European IP scene, so you can develop a strategy in terms of where you patent and where you oppose competitors’ patents,” says Barry. “It’s like a chess board, and you have to understand the way it all works in order to play the game well.”

Peter Haapaniemi writes about global business and law from Farmington, Michigan.

e-commerce

The Tangled Web

When it comes to e-commerce, the intellectual property issues are often as elusive as cyberspace itself.

By James Morrow

A few years ago, a large shipping company ran a series of TV commercials set in the offices of a company whose website had just gone online. As the staff watched the orders pour in, their joy turned to worry as everyone wondered how they were going to ship all that merchandise—as if that were the only headache involved in selling over the Internet. Of course, the reality of doing business on the web is far different than it was a few years ago—when that already-optimistic ad campaign aired—and an online shop is no longer thought of as an instant ticket to riches. To further complicate matters, new technologies and new regulations are changing the face of e-commerce—and raising a host of intellectual property issues that savvy companies must be familiar with before they consider hanging out an online shingle. Here are some of the major IP concerns any company that does, or is thinking about doing, business online should consider before going any further.

Cross-Border Sales: Streaming through Cyberspace

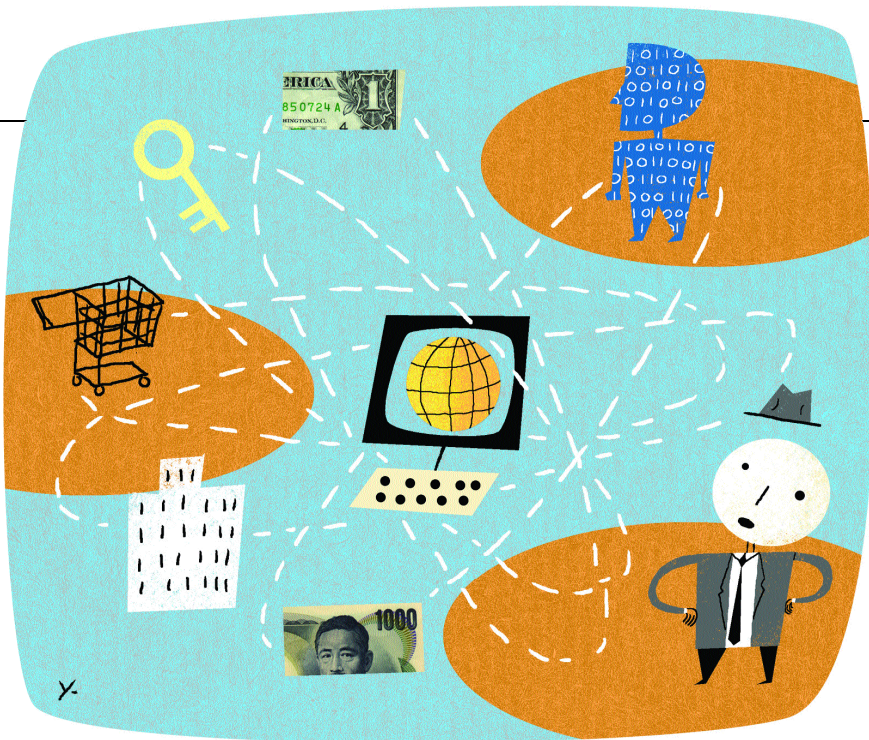
Any company selling goods or services overseas via the Internet needs to know that the moment it starts targeting consumers in other countries, it runs the risk of subjecting itself to those countries' laws. "Cross-border interaction raises the issue of being familiar with the jurisdictional law of countries whose markets you are now getting the benefit of," says Irah Donner, a senior partner in Hale and Dorr's Washington office who specializes

in intellectual property issues. Among other things, this means one has to be careful of "typical copyright, trademark, and patent issues," he says. Donner adds that companies must perform due diligence—e.g., by performing patent and/or trademark searches—to make sure they are not infringing on the intellectual property of companies in countries they are doing business in, or face the consequences.

But while trademarks and copyrights are fairly straightforward, when it comes to jurisdiction in everything from contract disputes to product liability, the laws are still fluid as to when a company in one country can be hauled into the courts of another. In the United States, says Donner, "stream-of-commerce theory applies—which basically states that 'targeting' a particular country for sales subjects one to that country's legal system."

Targeting can occur in a number of ways, e.g., by offering shipping or currency conversion for customers in that particular place. In the same way, there are steps companies can take to avoid this appearance. "If, for example, a British site were to be entirely in English and quote prices only in pounds and state on the site that they don't export, they could show that they are not targeting other European countries," says Sarah Harrop, a junior partner in Hale and Dorr's London office. If someone in a nontargeted country still tries to place an order, a company can choose to fulfill it, though to be extra careful (say, to avoid stepping on the toes of a local trademark holder), servers should be configured to reject orders from

Illustration by James Yang



nonapproved locations.

Ultimately, says Donner, “we still don’t have enough data to come to a conclusion on which countries are more likely to act across jurisdictions.” Therefore, a good rule of thumb is that marketers should not target any country the insides of whose courtrooms they would rather not see.

Metatags: Hidden Meaning

Company names and ways of operating are not the only IP issues that purveyors of e-commerce face. Even the way a company describes itself is now an intellectual property issue on the web because of the use—and abuse—of metatags. When a website is built, the authors behind it can embed hidden words, known as “metatags,” into the page. And although the metatags are not generally seen by users, search engines such as Google can be tricked by these hidden words. All this means that less savory operators can plant metatags that draw visitors from search engines who are looking for something completely different—or, worse, trying to find a competitor’s page. And it happens

more often than most people think: “I had a client whose competitors were using my client’s name in their metatags,” reports Harrop. Although the competitors agreed to stop using the offending tags, companies need to check search engines, and if need be, use their web browsers to show the hidden code of competitors’ sites to make sure their names aren’t being misused (Explorer users can click on “Source” under the “View” pull-down menu to do this).

In England, “if your name is not a registered trademark, which would provide a prima facie reason for preventing the use of your name, the law of passing off applies; you would have to show a court that the competitor was creating confusion in the mind of the consumer,” says Harrop, who notes that such disputes often wind up settling out of court. Not every country sees matters this way. According to Henno Groell, a Hale and Dorr attorney based in Munich, “we have had court decisions in Germany explicitly allowing non-related metatags, provided, however, that they do not infringe other parties’ name rights, copyrights, or other IP rights.”

Contract Laws: Is the Customer Always Right?

“Contracting online is very similar to contracting in real life: you still have all the basics of needing an offer, an acceptance, and consideration,” says Hale and Dorr’s Harrop. “The problem is making sure that there is also certainty of that acceptance, and this is becoming a really big issue. Businesses have thought their online contracts are binding when in fact the customer hasn’t read the terms.”

While the best way for companies to protect themselves against contract disputes is to make sure customers have positively agreed to the terms of the sale—such as by clicking on a box stating that they’ve read the fine print—courts tend to take a different view of complaints by individual consumers versus those of other businesses.

In B2B disputes, the laws of contract will apply, and there will be a jurisdiction clause choosing which law and which forum will apply, Harrop says. “But when it’s a consumer complaint, there’s a lot less scope to negotiate, and courts tend to be very sympathetic to individual customers.” Across Europe, reports Groell, consumers have the right to return goods purchased online, thanks to a 1997 EU directive. In other words, especially when it comes to disputes over issues like data privacy and product liability, it’s best to assume that the customer is always right.

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The Art of the Search

Invest the time. Invest the money. Or risk facing some unpleasant surprises later on.

By Donna Cornachio

Photograph by Peter Krogh

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When a U.S. District Court ruled early last summer that Microsoft had infringed a patent licensed by the one-man software company Eolas Technologies, it seemed like a case of David conquering the mighty Goliath. Eolas' founder Mike Doyle had filed suit against Microsoft claiming that the software monolith had infringed U.S. Patent No. 5,838,906, which describes a method for embedding and invoking interactive applications such as plug-ins and applets from web browsers. Doyle is also a named inventor of the '906 patent.

The jury found that Microsoft's Internet Explorer browser did infringe Eolas' patent through its inclusion of Microsoft's ActiveX technology, which web authors use to launch and run applications such as Adobe Acrobat documents and Macromedia Flash movies.

The jury's decision led to a \$521 million judgment against Microsoft. And on October 30, James E. Rogan, then director of the U.S. Patent and Trademark Office (USPTO), ordered that Patent No. 5,838,906 be reexamined in view of "prior art" that had, apparently, not been considered when the application that matured into the '906 patent was pending. This situation and the outcry of the Internet community, said the USPTO, was nothing less than "extraordinary."

A Cautionary Tale

For the software industry, the issue at stake in the Microsoft case was a broad

range of technologies that rely heavily on Explorer's ability to utilize plug-ins. According to Paul Festa, a software writer for CNET News.com, the ruling in the Microsoft lawsuit could disrupt the Internet by forcing thousands of websites to be rewritten, or to abandon plug-ins altogether. Ultimately, he says, "the fight between Microsoft and Eolas represents a larger battle between those who believe in patents and those who assert that they have no place in software."

For other companies, however, the case represents a more immediate and important object lesson about the need for a comprehensive search before moving ahead with any sort of patent application for an invention.

"It's a fascinating and relevant story to those of us who do prior art searches," says Gregory S. Discher, a junior partner in Hale and Dorr's Washington, D.C., office. "What Microsoft and the whole Internet community is doing is desperately searching for one or more prior art references that would invalidate this patent."

At the present time, the U.S. Patent and Trademark Office has about 450,000 pending applications in various stages of being processed, notes Brigid Quinn, the USPTO's deputy director in the Office of Public Affairs. It takes approximately three years from the point an application is filed until the USPTO issues a patent—much of that time, according to Quinn, spent searching for whether an invention is actually patentable.



450,000 applications and counting: The USPTO's Rob Clarke, Bob Spar, and Brigid Quinn examining some of the agency's many, many files.

“It would be very helpful if the applicants were required to do a search prior to filing for patents,” says Quinn, “but they’re not. They are only required to reveal whatever they know about the existence of prior art. The burden is on the Patent Office to show that the invention is not new, is not useful, is obvious, or that the inventor has not fully disclosed in writing how to make or use it.”

Evidence of Prior Art

A good search should reveal evidence of any similar work already out there in the

public domain, what is known as prior art. But the mere existence of prior art doesn't necessarily render a new product or idea unpatentable. “The prior art sets the level of development or achievement in the field,” says Bob Spar, director of the USPTO's Office of Patent Legal Administration. “From there, the application should focus on the advancement in that field. Without knowledge of the prior art, the claim merely recites what was previously done, and that application will end up being rejected.”

Radha Iyengar, director of intellectual

property and technology licensing at NitroMed, a small research-based pharmaceutical company in Bedford, Massachusetts, says that finding evidence of prior art doesn't necessarily squash the potential for the company—which takes existing drugs and chemically modifies them to release nitric oxide in the body—to patent and sell a new drug. “Say someone from our chemistry department has an idea for a new nitric-oxide-enhancing compound that could be used to treat arthritis,” Iyengar explains. “One of the first things I would do is to conduct a

search to understand the patent landscape; for example, to see what other nitric-oxide-enhancing compounds are out there for the treatment of arthritis and whether other compounds in this therapeutic area can also be modified. If I find evidence of prior art, then I need to go back to the chemistry department and tell them that they need to change their strategy or, if possible, design around the prior art.”

Another option, Iyengar says, would be to draft a patent application that specifically excludes the prior art. “If you can point to the line in your specification

that excludes the prior art, it makes your patent examination go so much smoother. In a sense you’re doing the USPTO’s homework for them.”

The overburdened USPTO would welcome having its applicants do more of that sort of homework. According to Quinn, the federal agency receives more than 350,000 patent applications a year and grants 180,000 patents annually. A fee legislation bill is currently before the House of Representatives that would allow the agency to charge for outsourcing its search function. The fee proposal would

enable the USPTO to accept searches done by other patent offices around the world or outsource searches to private commercial entities. According to Quinn, “Outsourcing will take the burden of searching off our examiners and give them more time to concentrate on the purely governmental function of determining patentability based on the law.”

The Case for Searches

Patent experts, lawyers, and specialists in intellectual property all acknowledge the benefit of doing a search prior to filing an application for a patent with the USPTO. “Executives should always do a thorough investigation of the patent landscape before filing for a patent,” says Isaac Angres, whose Alexandria, Virginia-based firm provides searching capabilities primarily in the areas of biotechnology and pharmaceuticals.

To buy time—and establish a filing date that can reduce the pool of potential prior art—applicants sometimes file a provisional patent application, which provides the applicant a one-year period before the non-provisional application needs to be filed. This additional time can be used to conduct a search to determine whether it’s worth the expense of filing a non-provisional application. “A provisional application can generally be filed more quickly and cheaply than a non-provisional application,” says Hale and Dorr’s Discher. Moreover, he notes, “the whole patent process is so date-driven. So the sooner you

file, the less potential art there is for the Patent Office to assert against you while the formal application that is based on the provisional application is being examined.” However, he warns, a poorly written provisional application can backfire, since, “if the provisional application is not written in a manner that satisfies the statutory requirements with respect to subject matter claimed in the formal

Look in Your Own Backyard

Thanks to the Internet, you can now perform the most basic preliminary search yourself to find out if someone has already beaten you to the patent office, starting with an exhaustive database run by the U.S. Patent and Trademark Office itself. That’s one reason the USPTO’s overworked examiners become frustrated when applicants haven’t done their homework.

“When I was examining, there were times I could simply walk into the Crystal City shopping mall on my lunch hour and then go back upstairs and write a rejection on a vendor’s patent application,” says Rob Clarke, senior legal advisor for the USPTO and a former patent examiner. “I worked in the extremely competitive area of hygiene art—which covers things like diapers and sanitary napkins. Sitting right there in the drugstore would be the prior art that had already been commercially produced!”

Needless to say, Clarke adds, “that application would be dead in the water.”

It may be stating the obvious, but applicants need to know not only what is in the competitor’s patent queue, but also what relevant material may, in fact, be lying in their own backyard. It’s not inconceivable, for example, that companies could find—after they’ve made their application—that they already had a patent in their portfolio that was relevant to the one they were searching. If they don’t discover this before they reach the prosecution phase with the USPTO, they’ve wasted a lot of time and money. On the other hand, if they discover the redundancy early, the patent application they write can be different from the prior art and therefore have a better chance of being approved.



THE SEARCH for a Search Firm

Sometimes the search is easier when you call in the experts.

FINDING A FIRM: Unlike most prior art, search firms are hiding in plain sight. Many list in the Yellow Pages (under "Patent Search") or advertise in legal publications. But word of mouth may be most reliable, since law firms and other companies that have used search firms can talk without bias about a firm's knowledge, experience, and creativity.

KNOWLEDGE: While almost anyone can initiate the research process—think Google search—understanding the implications of what you find, the experts insist, requires an understanding not only of the technology you're looking to patent (as represented by words and drawings) but also of both the USPTO's classification system and its database.

EXPERIENCE: A search firm that has a substantial track record in helping with litigation is likely to have a better sense of the applicability of the research: how the claims may be interpreted, which references are relevant because they could set the stage for problems down the road, and which patents are broader than they may appear to be.

CREATIVITY: As they comb myriad databases, libraries, files, store shelves, and a host of other sources—both here and overseas—for prior art, it's unlikely that what the search firms will unearth will simply be carbon copies of your invention. What will deprive you of patentability will be more subtle, and your firm will need to know how to watch out for it.

application, it will not provide the scope of legal protection envisioned." (For more about provisional patent applications, see *IP Business*, Summer 2003.)

While some companies may find the cost of doing a search a deterrent, the long-term value may well outweigh the initial expense. It can cost anywhere from \$500 to \$5,000 for an outside search firm to perform a novelty or patentability search, for example. At the other extreme, a thorough freedom-to-operate search—which is likely to take place prior to commercialization—costs about \$15,000. According to Angres, a pharmaceutical company is likely to spend from \$200 million to \$500 million to develop a drug from scratch. The price of a freedom-to-operate search, Angres notes, therefore "comes out to about .005 percent of the total cost of developing a drug. If that same company gets sued over its patent, one page of a complaint costs 15 grand!"

Colleen Superko, a senior partner in Hale and Dorr's IP Department in Boston, frequently does her own first-cut searches for biotechnology clients. "It is absolutely critical to do a search," she says. "Our clients make significant investments

to try to stay ahead of the competition. Searching lets them know who their competition is and what specific research they're pursuing in their PTO filings. This can help us determine if the innovations are patentably distinct. Once or twice, based on the search results, we've had to tell the client that the prior art is too close for them to seek even a narrowly claimed patent. While they may initially be disappointed, they are glad to have saved the time and money that would have been wasted by forging ahead blindly."

Detective Stories

Executives can also perform a preliminary search themselves, using a variety of databases, including one developed by the USPTO that lists the more than six million patents that have been issued by the agency. However, unless you're familiar with the complexities of patent claims, it's probably a good idea to hire an outside company that has patent and legal expertise. "We frequently get people who've done their own search and then we do a search and find a relevant patent," says Randy Lacasse, who operates a professional search firm in Alexandria, Virginia.

"The professional searchers are the real detectives," says Superko. "They have both the technical training and the access to a host of different databases. They also know to look in places that patent attorneys either might not know about or might be restricted from using."

Once the search has been completed and the invention has been found to be different from the prior art, an application is filed at the USPTO and receives first-action review—which takes an average of two years, a time frame reflecting in no small part the ever-increasing number of applications filed with the USPTO.

There's no clear consensus on how far you need to go on a search. "The sky's the limit," says Angres. "Sometimes a client wants to exhaust all possible areas, so you search the literature, you search patents, commercial marketing literature, you go to the library, you go worldwide." As Microsoft may have learned the hard way, doing the homework up front may not be easier. But it sure is cheaper.

Journalist Donna Cornachio's work has appeared in The New York Times, Newsweek, and The Washington Post.

The Price is Right

Downloading music. “Copy-cattin’” drugs. Standardizing trademarks.

Is Music the New Porn?

The cheesy thocka-thocka-thocka of an X-rated movie’s electric guitar soundtrack isn’t the only music bosses need to worry about hearing in employees’ cubicles. With enforcement being stepped up against unlicensed MP3 downloading under the terms of the Digital Millennium Copyright Act (DMCA) and some software developers going after companies that have unlicensed software running on their systems, employers could soon find themselves liable when their workers go surfing for copyrighted tunes.

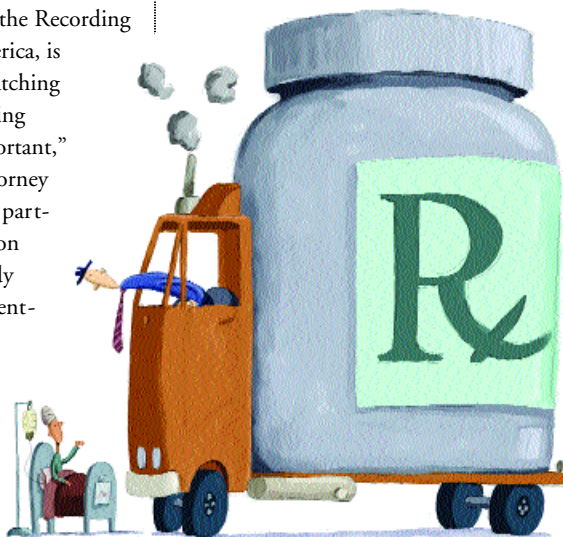
“What’s struck me about the DMCA, and how it is being used by the Recording Industry Association of America, is that it makes the issue of watching what your employees are doing online that much more important,” says intellectual property attorney Donald R. Steinberg, senior partner in Hale and Dorr’s Boston office. Universities are already coming under fire (MIT recently shut down a student-run file swapping system to avoid liability, for example). “Will companies be next?” asks Steinberg.

Indeed, just as pornography was tied to hostile workplace and sexual harassment lawsuits, employees using office connections to grab music and movies off the web present a new liability threat. The best defense? “Good policy,” says Steinberg, who suggests companies make sure employees know that downloading a Top 40 hit via the company’s network is as forbidden as checking out porn.

Patent Rights, Patient Rights

A major roadblock for poor countries hoping to import cheap generic drugs was removed last August with a change in the World Trade Organization’s IP laws. Designed to protect pharmaceutical patent-holders in countries like the U.S., these laws now allow poor countries with no ability to manufacture patented drugs themselves to purchase generic, or “copycat,” drugs from countries like India and Brazil to combat health crises.

“It’s a bit of a conundrum,” admits



Hollie Baker, vice-chair of the Intellectual Property Department in Hale and Dorr’s Boston office. “Unless there are strong patent rights, drug companies aren’t going to have the money to do research, conduct trials, and get their medicines approved. In the future there may need to be some new model for developing drugs.”

Meanwhile, in the U.S., debate con-

tinues over the use of generic drugs and the importation of less expensive patented drugs from Canada—especially by state governments seeking inexpensive medication for their employees. Brand-name drug companies have resisted this and are discussing limiting the amount of medicine shipped north in an attempt to keep it from leaking back south again—taking profits and R&D funds with them.

Madrid Protocol: Not Yet a One-Stop Shop

As a way for U.S. trademark holders to protect their intellectual property around the globe without being buried under a mass of paperwork and applications, the Madrid Protocol is a great advance. But while American businesses now enjoy a quick and cheap way to protect their trademarks in the 56 other countries that have signed the treaty, those doing business in Europe should not regard Madrid as the last word in protection—at least not yet.

Although European Union countries are, individually, signatories to the protocol, there is still no link between the EU’s Community Trademark (CTM) system and the Madrid agreement. In practical terms, that means American firms seeking to do business in Europe are still better off seeking protection under the CTM, while the Madrid Protocol is still the best option for working with much of the rest of the world: “Whether you go with Madrid depends on where your interest lies,” says Hale and Dorr senior partner Donald R. Steinberg. “It’s expected that the two will eventually be linked, but they’re not there yet. You can’t yet forget about everything else.” —James Morrow

ILLUSTRATION BY DAVID MILGRIM