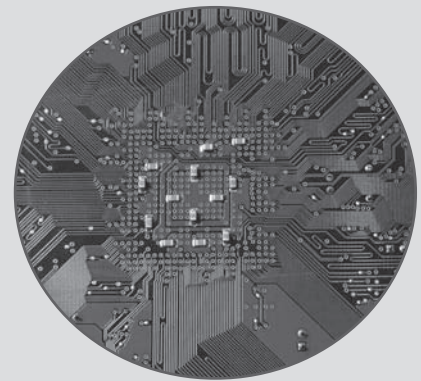


## THE INNOVATIVE STATE Technology: NJ's Economic Catalyst

## Patent Law



# Why Patent Applications Increase in a Down Economy

By Joseph Cavaluzzi, Contributing Writer



Even in a down economy, New Jersey companies continue to generate new patent applications, keeping attorneys specializing in intellectual property rights busy.

Ranked fifth in the nation in patent infringement litigation, the New Jersey docket reflects the state's history of innovation. Even as the telecom companies shrank and pharmaceutical growth has slowed, the rise of biotech companies, spin-offs and start-ups have helped maintain a growing pipeline of patent applications in the Garden State.

The global nature of the economy is driving business for intellectual property attorneys. It also is changing the role of intellectual property in corporate cultures; elevating patent application filings is an important part of strategic business planning.

The patent law business also is changing as a result of recent federal court decisions and cases that were still being decided as this story went to press. Congress, which has let the proposed Pat-

ent Reform Law languish for several years, may act on it by this summer, some of the attorneys interviewed here say.

The slowdown in the economy in general and retrenchment in the traditional bastions of New Jersey job growth and patents issued - big pharma and telecom - is not changing the amount of work for patent attorneys.

"While it may affect the mix of business, [the changes in the state's economy] have not affected the increase of business for intellectual property lawyers. For the past 10 years, IP has grown in importance to companies in New Jersey," notes Marc S. Friedman, who chairs the intellectual property practice at Newark-based Sills Cummis Epstein & Gross P.C. "A recent study that reported that as much as 90 percent of the assets of *Fortune* 1000 companies are IP assets. So, while there's been some decrease in the telecom business, the importance of intellectual property to the companies that remain operating in New Jersey continues to increase dramatically."

Mark Kesslen, chair of the intellectual property group for Lowenstein Sandler, splits his time between the firm's Roseland and New York offices and is spending more of it dealing

with a growing number of smaller companies, spin-offs and start-ups that are generating growth here. Plus, when times are tight, companies look for ways to generate new revenues with the intellectual property they already possess.

"In a good economy people build portfolios and protect their innovations. In a recession, they look for ways to generate royalty revenues or litigate to protect their patents. They also look to make sure their licensing agreements are being enforced properly," Kesslen says. "We continue to see growth from mid-sized pharmaceuticals and life science companies and we're seeing more start-ups in Internet and telecom businesses." Kesslen says the state may see a slowdown in patent applications in the summer months as companies adjust their budgets and start to confront the recessionary period we appear to be in now.

The nature of intellectual property usually helps companies that rely on patents go through short-term downturns unaffected, says **David De Lorenzi**, chairman of the intellectual property group at Newark-based **Gibbons P.C.**, which has additional offices in New York, Philadelphia and Delaware.

"Intellectual property is an asset that companies are reluctant to stop protecting, particularly when things already have been developed in-house. Notwithstanding economic downturns, companies are not likely to turn away from research efforts in which they've already made an investment," De Lorenzi says. Cutting research staff means cutting workers with the skills and experience to develop new products.

Patent applications cost from \$10,000 to \$35,000, a relatively small cost compared to the R&D investments that run into the millions of dollars for pharmaceutical and biotech companies to do research and conduct trials.

"You could argue that in an economic downturn, our business gets more busy as companies look for alternative sources of revenue with low overhead. One of them is licensing," De Lorenzi says. "There's no overhead

other than the lawyer's and some in-house business folks. The rest is gravy in terms of income. From that perspective, we get busier when there is an economic downturn."

One way of generating new revenues on existing patents is by aggressively pursuing patent-infringement cases. While not common compared to other types of litigation, patent-infringement suits are a growing part of intellectual property law practices, especially as clients do more business in a global economy.

"If you have a successful patent, there are going to be competitors that try to grab market share, and the stakes in technology tend to be high," says Bruce Sales, a partner in Lerner, David, Littenberg, Krumholz & Mentlik, LLP, a Westfield firm of more than 60 lawyers that handles only intellectual property law. "Again, you have the global issue. Are you willing to sue people in the U.S. and elsewhere around the world? It would not be uncommon for us to represent clients being sued or suing others in multiple countries."

Whereas 10 years ago people may have been dismissive about patents in places like China and India, today patent licensing goes on in every country. A very significant layer of sophistication has been added to patent law: Determining in which countries it is worth the cost of pursuing patents and the extent to which they can be enforced.

It also can add a very significant layer of cost to the process of applying for and protecting patents.

"Companies have to weigh the cost of extending intellectual properties and products into [certain countries] and whether it's worth seeking patents in those countries. Understanding the business environment overseas is more important than ever," says De Lorenzi. "Look at Intel's recent announcement that it was investing \$500 million in China. Intel is a tech gorilla and its strategy behind the move doesn't necessarily apply to every emerging company. On the other hand, Intel wasn't always a gorilla."

Gibbons has been asked to consider



David De Lorenzi, chairman of the intellectual property group at Newark-based Gibbons P.C.

opening an office either in Shanghai or Beijing because clients are doing more business in Asia. Less than a year ago, the firm endowed Seton Hall University Law School with \$1 million to start an intellectual property law program. Gibbons Institute of Law Science and Technology seeks to create a venue for jurists, attorneys, scientists and others operating in the IP world to discuss issues of concern.

Another element of contemporary patent law reflects the changing economy and revolves around the patenting of business methods, the subject of recent and pending federal court cases that are shaping intellectual property law.

In September, in a case known as “Re: Comisky,” the U.S. Patent Office held the inventor’s method for conducting mandatory arbitration involving legal documents was not patentable, essentially finding that a business process that does not require the use or implementation of technology, but depends on steps of human intervention, can not be awarded a patent.

As this issue of *New Jersey Business* was going to press, another important case was scheduled to go before the Federal Circuit Court of Appeals, and

a dozen or so interested parties not directly involved in the case have filed briefs.

“Re: Bilsky has the potential to overhaul another federal circuit case called the State Street Decision, which opened the floodgates on business method patents,” says Kessler. “State Street held that anything could be patented as long as it produces a concrete, tangible result. The decision could come out in many ways. If it’s overbroad, it has the potential to overrule the patenting of software, which could really impact the whole intellectual property arena.” The U.S. Supreme Court has taken a fancy to patent cases in the last few years, according to Sales, and rendered several important decisions, including one known as the KSR case.

That case, which looked at standards of patentability, refocused the doctrine of obviousness. The court’s ruling did away with the accepted standard and introduced a new one that looks more at whether a particular result could have been expected.

Patent law holds that an invention has to be new but also has to be non-obvious, not something a person skilled in the technology could easily put

together. In the KSR case, the Supreme Court said one has to go back and look at whether the results could have been expected and that is a change to the previous test.

“The case is very new so it’s hard to say what impact it will have,” Sales says. “My personal view is it will put a greater emphasis on quality patent assets rather than quantity patent assets. The standards make it harder to obtain a patent than prior patent law. It underscores the importance of very skilled patent procurement.” So far, the court rulings and rule changes haven’t dampened the appetite of New Jersey companies for protecting their innovations.

“There have been a number of significant rule changes of a hyper-technical nature and a greater number of cases heard by the Supreme Court and the Court of Appeals of the Federal Circuit that significantly alter the laws governing the awarding of patents and infringement disputes,” Friedman says. “But none of these changes have suppressed technological advancement in New Jersey or the desire of New Jersey companies to vigorously protect their IP assets.” ❖

