



Legal Matters

Patent reform: a boon for nimble startups

Patent reform is finally here. The last time U.S. patent law was significantly updated was in 1952, the year that patents were issued for Mr. Potato Head and the first barcode reader. Much has changed since then. For one thing, the U.S. has transitioned from an industrial economy to an information economy. And patent filings have increased tenfold, resulting in a staggering backlog of unexamined applications at the U.S. Patent Office. Although many interested parties have disagreed about how to fix the patent system, almost everyone has agreed that an overhaul was needed.

Recently, Congress passed the Leahy-Smith America Invents Act (AIA), which President Obama signed into law on Sept. 16. One of the major purposes of the act was to harmonize U.S. patent law with that of other countries, such as Europe and Japan.



Kory Christensen

Not everyone, however, is excited about harmonization. Some have argued that the overall impact of the AIA will be to harm startups and other small businesses.

However, for companies that are informed about the law, nimble, and able to develop effective procedures, the AIA may be an unexpected boon. Moreover, there is no need to panic. Since many of the provisions take effect 18 months after enactment, there is ample time to become educated and develop the necessary procedures.

One of the more controversial features of the AIA is the switch from a "first to invent" to a "first to file" system. The U.S. has been virtually alone in the industrialized world in awarding patents to the first inventor rather than the first person to file a patent application. The new law, which goes into effect on March 16, 2013, will

give priority to the first person to file an application, as long as the first filer did not derive the invention from another person.

Because the AIA included a significant increase in patent fees, the first to file system is generally thought to favor large corporations and other well-funded entities. However, with shrinking revenues due to the downturn in the economy, some large companies make the frequently misguided decision of reducing R&D and patent procurement activities, which can have devastating consequences later on when they find themselves behind their competition and without patent protection. The other difficulty faced by large companies is the amount of red tape involved in patenting an invention. An idea must jump through many hoops from conception to patenting. Often, great inventions are stifled at the idea stage. Many inventions have to wait for quarterly patent review meetings or approvals by prod-

uct managers, who are often concerned about rigid IP budgets.

Startups, on the other hand, which are often more nimble and flexible than big companies, can spot important ideas early and file patent applications before similar ideas can percolate up through their larger competitors. While money is certainly a consideration for startups, knowledgeable executives will be aware of cost-saving tools, including the "provisional" application. A provisional application is much less expensive to file than a regular, non-provisional application, and gives an immediate "patent pending" status for the invention, as well as a 12-month runway to decide whether the invention merits the more expensive non-provisional application. To win the race to the Patent Office, successful startups will learn the new mantra for provisional applications: "file frequently and often."

In addition, the AIA creates new procedures for challenging

patents before the Patent Office rather than in court, which may prove to be a real boon to startups and small businesses after they go into effect on Sept. 16, 2012. Currently, the cost of challenging a patent in court can easily exceed a million dollars. In this arena, startups are definitely not on a level playing field with large companies. While nonjudicial procedures for challenging patents have existed in the past, the Patent Office tended to rubber-stamp the patents it issued, so that efforts to eliminate over-broad patents often backfired against the challenger. The two new procedures, *ex parte* review and *inter partes* review, have been designed to overcome the shortcomings of the earlier procedures, while minimizing the risk of spurious and repetitive challenges to issued patents. By reducing the need for litigation, *ex parte* review and *inter partes* review tend to level the playing field between large and small

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ASSOCIATIONS

• The **Utah Valley Entrepreneurial Forum** last week announced winners for its 2011 Annual **UVEF Awards**. Award recipients will be named in the following categories: Most Innovative Product: **RiverRock Bioscience**. Ron King Social Entrepreneur of the Year: **Ecocraps**. Greatest Contribution to Entrepreneurs: Jeremy Hanks, **LaunchUp**. Utah Valley's Best Kept Entrepreneurial Secret: **Fishbowl Inventory**. Entrepreneur of the Year: Brad Caldwell, **Security Metrics**.

BANKING

• **TAB Bank**, Ogden, provided **\$65.6 million in working capital facilities** for several businesses during the month of November. These facilities were provided for companies across a broad spectrum of industries. The bank provided four A/R lines of credit totaling \$16.2 million, one ABL line of credit for \$7 million, 23 equipment Loans for \$5.5 million, three participation loans totaling \$8.2 million, four capital lease purchases from lease originators for \$4.8 million and a student loan portfolio acquisition for \$23.9 million.

• **Wells Fargo** donated

\$75,000 to **Community Development Corp. of Utah (CDCU)** at a check presentation ceremony held today at a foreclosed home acquired and rehabilitated by CDCU in Kearns. The \$75,000 donation is part of \$5.53 million in grants Wells Fargo has awarded to 52 nonprofits across the country through its Leading the Way Home Program Markets Initiative to help stabilize and revitalize neighborhoods hard-hit by the economy. CDCU plans to use Wells Fargo's \$75,000 grant to further enhance its revitalization efforts in targeted Utah communities by acquiring and rehabilitating some of the worst foreclosed, single-family homes in the most at-risk neighborhoods; rehabilitating the properties to reasonable standards that promote best practices in energy efficiency, water conservations and accessibility; opening some of the target homes to their surrounding communities as showcases of ideas for home improvement for low-and moderate-income homeowners; and using these open houses as vehicles to promote other stabilization resources and services including, HUD-approved housing counseling and foreclosure mitigation assistance.

• The **Credit Union National**

Association is now saying that **membership for credit unions grew by only a third of what it originally projected** and savings actually dropped as part of Bank Transfer Day. In November, the trade association said that based on a survey, 650,000 people joined credit unions in the month from Sept. 29 to Nov. 2. However, after the group collected its regular monthly data it is now saying that 214,000 people joined in October. CUNA also initially reported that credit unions added about \$4.5 billion in savings. However, its latest numbers show that savings actually decreased by \$400 million in October. The association's chief economist blamed the errors on not being precise enough in drafting a questionnaire.

• Current chairman of the board of **Brighton Bancorp** and its subsidiary **Brighton Bank**, **Robert E. Taylor**, will be stepping down from his position as chairman on Jan. 1. He will continue as a board member through May 2012. He has served on the Board for 34 years and as chairman for the past 11 years. On Jan. 1, **Howard G. Holt** will be his successor as chairman of the board and will remain the CEO. Holt has been employed by Brighton

Bank since 2001 and has over 35 years of banking, financial and sales experience with an emphasis in administration, management, business development and commercial, consumer and real estate loan production. **Robert M. Bowen** will assume the position of president and Chief Operating Officer of Brighton Bank. He currently serves as chief operating officer, chief lending officer and

member of the board. He has been employed by the bank since 2009 and has more than 30 years of local commercial, industrial and real estate lending experience.

CONSTRUCTION

• **Chamonix Larsen**, former energy program director of the State of Utah Division of Facility

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PATENTS

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companies.

The AIA also makes it easier and less expensive for a startup to challenge a patent before it issues. Once a patent application is published, which typically occurs 18 months after filing, any concerned citizen, including competitors, can educate the patent examiner about existing technology so that over-broad patents may never be granted. The challenger, who can be anonymous, can submit information in the form of patents or printed publications, as well as a description of why the information is relevant to the claims of the application. This latter feature is new and greatly increases the chance that the submitted information will be considered. In addition, the AIA increases the window of time in which the information can be submitted from three to six months after publication.

Of course, critics argue that large companies are in a better position to monitor their competitors and use the new procedures to harass small companies. However, knowledgeable startups will recognize that many companies exist that offer IP monitoring services for a reasonable price. Gathering competitive intelligence about competitors' patents is a must for any technology company, big or

small. Moreover, large companies with diverse product lines may have a difficult time monitoring their massive IP portfolios, whereas smaller businesses may be able to watch the competitive landscape with a razor focus.

In the end, any reform legislation as sweeping as the AIA will result in winners and losers. Perhaps the hallmark of good legislation is the fact that no party is completely satisfied with the new law. Judging from the many articles published by all sides of the debate, this certainly appears

to be the case with the AIA. While the AIA definitely creates risks for uninformed startups, knowledgeable startups that can be nimble and successfully develop a "file frequently and often" provisional strategy may find themselves among the winners in the latest round of patent reform.

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