

Predictions In 3 Key Areas For IP Practitioners This Year

By **Susan Natland, Mark Lezama and Jeff Van Hoosear** (January 2, 2023)

We look forward to what promises to be another busy year for IP practitioners. In this piece, we will focus on what to expect in three areas: the U.S. Patent and Trademark Office, trademarks and patent litigation.

USPTO

The USPTO will continue to lean in on diversity and inclusion this year, something it did more than ever last year, when USPTO Director Kathi Vidal appointed Caren Ulrich Stacy as the agency's first lead adviser on diversity, equity and inclusion; continued to expand its involvement in the Council for Inclusion Innovation; and set forth new initiatives that include:

- An internship program;
- A possible new fast-track patent program;
- An expansion of pro bono service programs; and
- The launch of a pilot volunteer outreach program.

Vidal also took steps to combat counterfeiting including a campaign in English and Spanish across major distribution channels, and partnered with other agencies such as the U.S. Food and Drug Administration, U.S. Customs and Border Patrol, the International Trademark Administration, and the U.S. Copyright Office to further these efforts.

These partnerships and clear messaging of the harm counterfeits bring to the U.S. economy, brand owners, consumers and communities are expected to continue this year.

On the patent front and the always hot area of subject matter eligibility, the USPTO developed and deployed the Deferred Subject Eligibility Response pilot program last year designed to evaluate whether examination efficiency and patent quality can be improved by delaying the complete evaluation of subject matter eligibility until other patentability criteria are evaluated, as opposed to addressing all requirements for patentability at the same time.

The USPTO has stated more needs to be done, however, and is revisiting its subject matter eligibility guidance overall. Stakeholder sessions are also continuing, and we expect further guidance will be issued this year.

In connection with inter partes reviews, Vidal issued a memorandum in 2022 discussing the current Patent Trial and Appeal Board practice on discretionary denials of IPR and post-grant review, or PGR, proceeding institutions.[1]

The memo explained the conditions under which the PTAB will not deny institution of an IPR or PGR under Fintiv, including when a petitioner "presents compelling evidence of unpatentability." With discretionary denials down.

We expect to see more activity in this area this year, and Vidal has stated that she intends



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to introduce updated Fintiv guidance and rulemaking.

On the trademark front last year, the USPTO continued to grapple with the massive trademark application inventory due to the surge in trademark applications in recent years. First-action pendency rose steadily to more than eight months.

The USPTO is making efforts to reduce first-action pendency and these efforts will continue in 2023, including a focus on hiring and training, and the addition of numerous automated processes — bots — to increase efficiency.

Reducing first-action pendency will give companies comfort in going to market faster and will help inform decisions on filing abroad for U.S. trademark owners.

Last year, the USPTO also implemented several solutions to protect the integrity of the trademark registrar and address fraud. These included:

- Alerting users to known scammers by posting a list of scammers on the USPTO website;
- Working with law enforcement where appropriate and sanctioning filers that violate USPTO rules;
- Securing federal registration of the USPTO's own marks to assist in going after USPTO impersonators; and
- Implementing a new ID verification system requiring all trademark filers to verify their identities as a condition for filing electronic trademark forms.

These initiatives help to protect the trademark register, and we expect to see continued efforts in these areas this year.

Also this year, the Trademark Trial and Appeal Board will implement a pilot program for holding final pretrial conferences in certain inter partes cases to better manage and streamline cases that proceed to trial.

The goal of the pilot is to save time and resources of parties and the TTAB, and to foster the effective and efficient presentation of evidence.

Trademarks

At the outset, everything that we see happening this year for trademarks and the USPTO will result in more federal trademark filings, increasing an already burdened system.

The Trademark Modernization Act will fully kick in, and the trademark bar is anxious to see if the new three-month response period, and the new reexamination and expungement proceedings, will really help eliminate applications and remove unused or fraudulent registrations.

The new proceedings of reexamination and expungement in the TMA provide trademark owners with two new procedures intended to eliminate dead wood from the federal register.

The USPTO also introduced a shortened response period — which started Dec. 3, 2022 —

that will make these types of proceedings more attractive.

The number of fraud-based cancellation actions will likely increase this year. The USPTO continues to review applications from Chinese entities. Due to Chinese subsidies and government mandates, many U.S. applications by Chinese filers have proven to be suspect.[2]

Also of great interest is to see how the metaverse, virtual goods and services, and new technologies will continue to shape our culture and commerce this year. All types of clients — from sole proprietors to Fortune 100 corporations — are filing applications in these new technology areas.

An increase in online buying and selling and in entertainment via blogs and influencers during the initial years of the pandemic led to increases in new marks and new trademark application filings, and this will continue through 2023.

In addition to the increase this year of filings covering non-fungible tokens, there is also likely to be an increase in filings by trademark owners of various consumer goods — including apparel, footwear, eyewear, jewelry and watches — for virtual versions of these goods in Class 9, or downloadable products, or Class 41, or entertainment services.

Both of these classes already being very heavily populated. This situation will likely lead to a number of brands competing for the same or similar marks in the same classes.

In addition, as more online platforms require sellers to have a trademark application or registration, there will be an increase of filings by those that had typically relied on common law rights.

Finally, another area of interest to watch this year is the status of legal cannabis and CBD goods and services.

Medical cannabis is now legal in almost 40 states, and recreational cannabis is now legal in over 20 states. The Biden administration has taken a much different view of legalizing cannabis and cannabidiol, or CBD, than that of the Trump administration.

We may see changes in certain laws — most notably the Controlled Substances Act and the Food, Drug and Cosmetic Act — which could allow for the first time federal registration for certain cannabis- or CBD-related goods and services.

That would be a significant development, as brand owners in the space currently use state registrations as a workaround.

Branded CBD and cannabis products have grown significantly in recent years and will continue to increase as more states legalize cannabis and more consumers become comfortable with CBD and cannabis products.

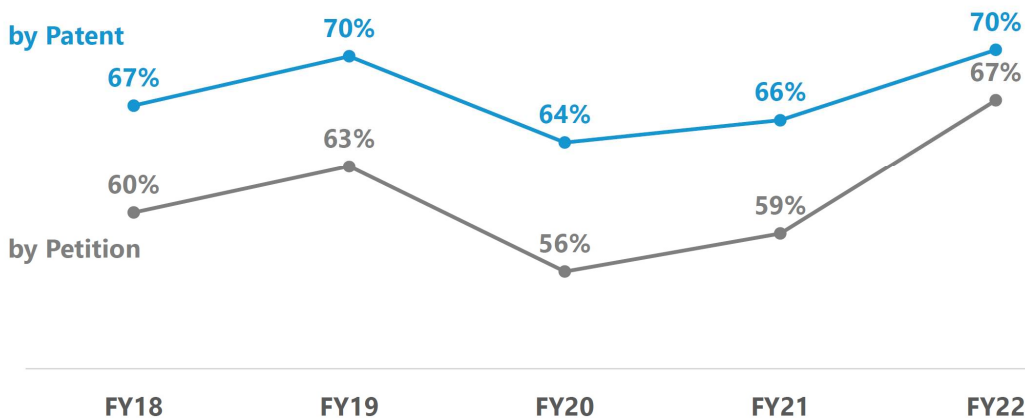
Currently, the USPTO must refuse registration of marks used for most CBD products for people and pets pursuant to the FDCA, and all cannabis products pursuant to the CSA.

If there is a significant change in either of these federal laws in 2023, the USPTO will no longer be required to put the lawful commerce requirement above its consumer protection goals.

Patent Litigation

We can expect a resurgence of PTAB trials this year. In its annual roundup, the USPTO reported that the institution rate on PTAB petitions in fiscal year 2022 was 67%, the highest it's been in the past five years.[3]

Institution rates by patent and by petition (FY18 to FY22: Oct. 1, 2017 to Sept. 30, 2022)



Source: USPTO.

As noted in the USPTO section of this article, Vidal issued interim guidance in June on Fintiv denials that generally made it more difficult to deny a petition under Fintiv.[4] The PTO simultaneously released a study indicating Fintiv denials had already been declining for at least three quarters.[5]

Nonetheless, some portion of the increase in the institution rate observed in fiscal year 2022 is likely attributable to the interim guidance. And according to data Unified Patents posted at the end of October, discretionary denials in general were down in 2022 compared with 2021.

The USPTO's fiscal year ended Sept. 30, so the graph from the USPTO's annual roundup captures only about three months of operation under the director's interim Fintiv guidance. It is likely that institution rates will remain relatively high and discretionary denials will remain relatively low in 2023.

With Fintiv denials on the decline, the U.S. District Court for the Western District of Texas may continue to lose some of its popularity among patent plaintiffs.

Although the Western District of Texas still had the largest share of patent suits in 2022 — 22.8% according to Docket Navigator, and that number is down from 24.3% in 2021.

Since July, patent plaintiffs are no longer guaranteed to draw U.S. District Judge Alan Albright by filing in the Waco Division. Instead, cases filed in Waco will be randomly assigned to judges across the Western District.[6]

It therefore won't be surprising if the Western District of Texas' share of new patent cases

continues to drop this year.

The court with the second most new patent cases in 2022 was the U.S. District Court for the District of Delaware. Last year Chief U.S. District Judge Colm F. Connolly issued standing orders requiring greater disclosure of the persons and entities with interest in any lawsuit over which he presides.

Any party that is a "nongovernmental joint venture, limited liability corporation, partnership or limited liability partnership" must name "every owner, member, and partner of the party, proceeding up the chain of ownership until the name of every individual and corporation with a direct or indirect interest in the party has been identified." [7]

Additionally, parties must identify third-party litigation funders and explain the nature of the funders' financial interests in the result of the litigation.

These disclosure requirements interfere with the strategy of some patent-assertion entities, or PAEs, of obscuring their role in a patent-enforcement campaign by assigning the asserted patents to shell companies created specifically for filing the lawsuits and whose only assets are the asserted patents.

As a result, some commentators have speculated that Judge Connolly's disclosure requirements may deter patent-assertion entities from suing in Delaware.

But unless a patent plaintiff can identify a judicial district where a would-be defendant has committed acts of infringement and has a regular and established place of business, the plaintiff must sue in the judicial district where the defendant resides — which for domestic corporations is their state of incorporation, which is often Delaware.

And the cost of patent litigation still makes it attractive for defendants to settle even unmeritorious cases for amounts that are profitable to PAEs. It therefore seems unlikely that Delaware's share of patent cases will drop substantially.

Rather than forgo suing in Delaware, and potentially forgo suing altogether, PAEs are more likely to devise new ways of bringing their enforcement campaigns.

But they and their attorneys will need to be careful to operate in good faith, as Judge Connolly's disclosure requirements have already led the judge to uncover a set of facts that, in the judge's view, raised concerns of violations of court orders and rules of professional conduct. [8]

And if the disclosure requirements reveal widespread abuses, this year may see more courts and individual judges adopting similar disclosure requirements.

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[1] Memorandum re INTERIM PROCEDURE FOR DISCRETIONARY DENIALS IN AIA POSTGRANT PROCEEDINGS WITH PARALLEL DISTRICT COURT LITIGATION, available at https://www.uspto.gov/sites/default/files/documents/interim_proc_discretionary_denials_aia_parallel_district_court_litigation_memo_20220621_.pdf.

[2] "Trademarks and Patents in China: The Impact of Non-Market Factors on Filing Trends and IP Systems," January 2021, available at <https://www.uspto.gov/sites/default/files/documents/USPTO-TrademarkPatentsInChina.pdf>.

[3] PTAB Trial Statistics FY22 End of Year Outcome Roundup: IPR, PGR, available at https://www.uspto.gov/sites/default/files/documents/ptab__aia_fy2022_roundup.pdf.

[4] Memorandum re INTERIM PROCEDURE FOR DISCRETIONARY DENIALS IN AIA POSTGRANT PROCEEDINGS WITH PARALLEL DISTRICT COURT LITIGATION, available at https://www.uspto.gov/sites/default/files/documents/interim_proc_discretionary_denials_aia_parallel_district_court_litigation_memo_20220621_.pdf.

[5] Patent Trial and Appeal Board Parallel Litigation Study, available at https://www.uspto.gov/sites/default/files/documents/ptab_parallel_litigation_study_20220621_.pdf.

[6] <https://www.txwd.uscourts.gov/wp-content/uploads/Standing%20Orders/District/Order%20Assigning%20the%20Business%20of%20the%20Court%20as%20it%20Relates%20to%20Patent%20Cases%20072522.pdf>. A recent order assigned all cases generally in the Waco division to Judge Albright; but even after that order took effect December 1, patent cases have continued to be assigned randomly to other judges in the Western District pursuant to the July order.

[7] <https://www.ded.uscourts.gov/sites/ded/files/Standing%20Order%20Regarding%20Disclosure%20Statements.pdf>.

[8] <https://www.law360.com/articles/1554050/del-judge-s-tough-stance-on-disclosures-roils-patent-bar>.