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Patent Reform in Congress, PTO Rules Changes and the Supreme Court

BY LYNDA L. CALDERONE

Special to the Legal

In the novel *The Perfect Storm*, three large storms come together to form one giant storm that mercilessly tosses fishing boats on the ocean. The fishermen try to gain control, but are powerless against the storm.

The last two years of “patent reform” have created a similar perfect storm. Taken individually, looking at the actions of Congress, the U.S. Patent and Trademark Office (PTO) or the U.S. Supreme Court over the last two years, each creates issues requiring the specific attention, but collectively, represent a perfect storm for individual inventors, most businesses, investors and patent attorneys, all of whom will have to work together to weather the storm.

There have been many articles and presentations addressing the proposed congressional legislation, the PTO rules changes and the Supreme Court rulings as they are proposed. However, it is instructive to now step back and consider all of these changes collectively. When each of the effective governing bodies affecting patent law started out, they had noble interests in mind. There were concerns regarding PTO backlog; poor examination quality; a perceived overwhelming quantity of patent litigation and alleged “patent trolls”; increasingly ill-founded allegations of inequitable conduct against patent attorneys; and, perhaps most significantly, that the present system is not designed for emerging technologies like biotechnology and business-method patents.

It is far from clear that the different paths down which these governing bodies have gone leads to resolution. It is instruc-

tive to look at where are we and what we should do to prepare for the future. Congress is poised to pass a watered down version of patent-reform legislation. The PTO will surely finalize its very hotly contested rules packages with little change, even in view of the strongly voiced opposition of the vast majority of practitioners, industry groups and businesses. The Supreme Court continues to issue groundbreaking patent opinions with little sign of slowing.

Patent applicants must be prepared for two major realities in this era of patent reform: The government is driving up the costs of patenting; and it will be more difficult to obtain a patent, and once obtained, more difficult to sustain. The PTO rules will contribute to the bulk of increased costs of getting a patent.

If in the finalized rules a cap is placed on the total number of prior art citations in technologies when there is typically more than 20 references to cite, additional written explanations will be required for the prior art. The need for written explanation will cause applicants to spend significantly more time screening and presenting art. Unfortunately, the downside of a failure to properly prioritize and/or explain prior art will be an increase also in allegations of inequitable conduct during litigation.

In attempting to speed up the process for examiners, future litigation issues are created and legal costs are driven up for applicants. While Congress was supposed to change the inequitable conduct standard to mollify the rules’ impact, the pending legislation is not guaranteed to reflect this change. It is looking increasingly unlikely that final congressional reform legislation



LYNDA L. CALDERONE, shareholder and chair of the intellectual property practice group at Flaster Greenberg, concentrates her practice in the preparation and prosecution of U.S. patent applications as well as intellectual property litigation, as well as with re-examination of U.S. patents, interference practice, prosecution of foreign patent applications, appeals before the Board of Patent Appeals and Interferences, and European opposition practice.

will include such provisions.

Another big increase in PTO costs is the proposed cap on the number of application filings allowed based on a priority filing. Since it is difficult to deal with inexperienced patent examiners, many of whom take two or three office actions in examination to even understand the technology, let alone the legal arguments, there will likely be an increase in use of evidentiary declarations and a significant increase in use of PTO appeals. An evidentiary declaration can be effective, but increases costs to applicants in terms of increased legal fees.

Further, appeals are very costly — more so in many cases than the cost of continuation filings. The board for PTO appeals is already backlogged. New proposed rules were recently released to cut back on the tasks the board handles, indicating the PTO knows there will be an increase in appeals. However, when a patent is important, appeal is inevitable. So, a result of the proposed rules is pushing examination normally done by examiners up to the board contributing to delays and cost.

More increase in cost could likely stem from Congress and the PTO if proposed legislation to introduce post-issuance opposition is passed. After undergoing examination — struggling to get a patent in view of increased costs, the patentee would have to face possible many-pronged attacks by competitors on its issued patent. Opposition in other countries is a very costly process to patentees and used often as a competitive club by large companies. Large companies would be able to use a financial club to increase patenting cost to smaller companies, without having to litigate.

While some look at this process as a way to avoid litigation, it may or may not be. It may be used as a first step to narrow a patent through a weaker and more rigid fact-finding process, or the truly litigious may eschew it altogether in favor of a district court when the law or a particular forum look more favorable for their cause. When the PTO introduced inter partes re-examination, it also had the same goal, but is very rarely used due to the onerous rules and collateral estoppel effect. So, the track record of the PTO in providing a workable alternative to litigation is not encouraging for any such new opposition procedure.

The Supreme Court, in what has been an active, anti-patentee, pro-large-company agenda has issued opinions making it harder to get a patent by, among other things: Changing the obviousness standard to make it even more vague and susceptible to hindsight analysis; making it more difficult to seek an injunction; making it easier to challenge licensed patents in court by changing the declaratory judgment test; and by continuing to chip away at the scope of infringement under the doctrine of equivalents.

The Supreme Court's actions alone in changing the obviousness standard will make it difficult enough to obtain and to uphold a valid patent, but a combination of these actions with those of the PTO in capping the number of times you can try to seek a patent and upping the cost of examination, and anyone can see a negative effect on patenting.

Applicants must work closely with patent attorneys up front prior to filing to prepare.

Clients need to understand the changes in the law and to be challenged by their attorneys on what the applicant believes will help to overcome obviousness rejections which are now more likely to occur during examination and which issues may arise even after a patent issues under the new legal standards. Applicants should also be careful to work with attorneys on disclosures that meet and complement a targeted filing strategy and to be sure of what claims they will be most likely to pursue, more likely to jettison and more likely to fight the hardest for in view of the possible limitations on claiming in the proposed PTO rules. Office action responses will have to be poised from the start as raising a more law-based framework in order to prepare for the more likely instances of appeals.

Patentees who want to litigate their patents must do more homework up front before going down that path. They need to realize an injunction is not a sure thing, to ensure they have arguments to overcome prior art and that they have a reasonable and strong settlement strategy. They also need to be poised for the inevitable and ever-changing landscape of the appellate sector. Thus, when stepping into litigation, a patentee must be ready for the long haul if things do not settle in the earlier phases of the case, including in some cases going perhaps as far as the Supreme Court in a post-trial appeal.

For infringers, faced with a patent, fresh validity searches for obviousness combinations are definitely in order. After the new rules changes and without congressional intervention, inequitable conduct will definitely be an avenue to strongly pursue as a defense. Since applicants will be more likely to include data and Rule 132 declarations in their disclosures and in seeking a patent, defense attorneys should carefully watch statements submitted and the veracity of data.

Finally, it is clear based on the *MedImmune* decision, that there will be a benefit to trying to settle a matter by license seeking settlement terms that allow for future patent challenges while operating under the protection of the license against a charge of infringement.

If you are buying or selling patents, due diligence should now be done very carefully. After the PTO rules changes, there will be new ways to assess a portfolio including evaluating: whether overlapping claims were filed in other applications, in contravention of the new rules if passed as proposed; whether there were obviousness combinations missed by the examiner in an examination that occurred prior to the Supreme Court's *KSR v. Teleflex* decision; and whether the applicant mischaracterized, intentionally or otherwise, prior art, data or other evidence to support patentability to the examiner.

There are many new areas for finding potential weaknesses, changing the value of portfolios both for purchase or investment. More care should be taken, as "having the patent" on something is simply not going to be worth as much as it used to be.

In the past, the U.S. patent law landscape was anti-patentee and patents were weaker. The courts, the PTO and Congress improved the outlook for patents by strengthening the doctrine of equivalents, reforming the laws of obviousness and strengthening the presumption of validity. The approach was to protect the ability of small businesses and individuals to secure patent rights, which is an inspiration to others.

However, these same bodies now are independently acting on different fronts to decrease U.S. patent value and validity and to make things more difficult and costly for individuals and small businesses to compete. Everyone should be concerned whether our patent rights are being unduly limited in scope for the right reasons. That is, we should examine whether what is happening is really addressing the above-listed concerns, or only loosely tied to the issues in order to be responsive to powerful, corporate lobbying in Congress, the result of a conservative Supreme Court and/or politically appointed and aligned PTO representatives. While change is inevitable, it is not always good and certainly cannot be made positive simply by calling it "reform." Our job, as patent attorneys, will be to continue to help our clients to weather the storm. •