



PATENT

reform

preparing for change

With

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Congress has been trying for years to reach agreement on reforms to the U.S. patent system, and the U.S. Patent and Trademark Office has proposed significant rule changes to deal with a growing backlog. Legislators say they want to create more certainty, bring U.S. law into line with the rest of the world, and streamline both patent prosecution – the application process – and patent litigation.

We've asked four noted practitioners to tell us how recently proposed changes would affect their clients. Joining us are Kathleen Carr, partner in Edwards Angell Palmer & Dodge LLP in Boston; Marina Cunningham, partner in McCormick, Paulding & Huber LLP in Hartford; Tom O'Konski, partner in Cesari and McKenna LLP in Boston; and Leah Reimer, partner in Cantor Colburn LLP in Hartford. This panel was moderated by freelance writer Anne Dorfman and reported by Kathryn Gianno for Catuogno Court Reporting.

MODERATOR: Let's begin with the legislative proposal to harmonize U.S. patent law with the laws of Europe and Japan by changing from a first-to-invent system to a first-to-file system.

CUNNINGHAM: It would place a burden not only on patent attorneys, but also on inventors and corporations, to document the invention faster, push it through the corporate system faster, as well as draft, review and file the application faster.

REIMER: There's already a tremendous amount of pressure to get that application finished within three months. Given how difficult that is, taking it down to two months or one month in order to win the race to the patent office is going to result in significant pressure.

MODERATOR: Would we see more so-called bad patents as a result?

CARR: Hopefully it won't have a detrimental effect on the quality of patents. A lot of times companies have to move quickly now anyway, so it would basically just change the timing deadlines. It may affect some companies more than others. Some already handle their patent portfolios on an international level, so they are used to proceeding that way.

MODERATOR: Which industries would be most affected?

CARR: In industries where you have more incremental changes, where you have more crowded fields, and you have patents on more crowded technology, you'll probably have more of a race to get that patent application on file. I'm thinking telecommunications, and maybe some pharmaceutical cases, as examples.

O'KONSKI: Changing to a first-to-file system will require individuals and small companies to be more proactive in their decisions regarding patents, more diligent in pursuing their patent applications. Companies like Microsoft that year after year end up among the top 50 patent filers are already geared up to do this. But the individual inventor who's trying to make a score on his or her invention, who might otherwise want to take advantage of the one-year grace period to see how the product fares in the marketplace before he or she decides on an investment in the patent process, is going to be hard-pressed to survive under the new system.

REIMER: Medium-sized companies and smaller companies may not have the infrastructure in place to keep track of inventions and to make sure they have the evidence to show prior invention. So in a sense you could view this as an advantage for them, because without those requirements all they would have to do is move a little faster.

CUNNINGHAM: It may result in more patent filings. Whereas under the old system the inventors had the luxury of waiting until an invention is somewhat complete, now the inventors are not going to have that luxury. Under the first-to-file system, the inventors are going to try to enter the patent office as soon as possible, and if they make further incremental inventions they are going to have to file additional applications.

MODERATOR: Isn't first-to-file unfair to the actual inventor?

CARR: First-to-file does simplify the process and simplify enforcement and simplify disputes between parties, but at the expense of taking away the fundamental right to your own invention in certain circumstances — when the invention date is actually at issue in a dispute.

O'KONSKI: The strongest arguments in favor of a first-to-file system are that it has worked in Europe and Japan for years, that it will reduce backlogs in the patent office and that it will undoubtedly streamline litigation to some extent by eliminating defenses based on prior inventorship.

REIMER: There may be more inventors here in the U.S., more small and medium-sized inventors, that will be more adversely affected.

CARR: It's not necessarily just the little guy. Sometimes it may be a giant company that actually was the first to invent that would lose its patent rights. So it's a bit of a balance that needs to be carefully weighed, and if I were to come down on one side, I'd still protect the person who's actually the first inventor of the invention.

Having strict, clear requirements for inequitable conduct challenges, or other bases for challenging a patent, is a very good thing. But as far as legislating it goes, I think it's kind of crazy.



MODERATOR: Efforts to streamline patent litigation by creating statutory definitions of “willful infringement” and “inequitable conduct” would limit a patent holder’s ability to allege that an infringer acted willfully and an alleged infringer’s ability to claim that a patent is invalid because it was granted as the result of deceptive behavior, that being the inequitable conduct.

O’KONSKI: There is a trend in litigation today to bifurcate inequitable conduct and willfulness. Most patent cases are jury cases now. Every patentee wants to have the issue of willfulness in front of the jury, and accused infringers often move to bifurcate willfulness to a later, non-jury phase of the case. Patentees often move to bifurcate inequitable conduct to a later, non-jury phase of the case. The reform proposal will, in effect, make bifurcation automatic.

REIMER: My clients and I spend a tremendous amount of time trying to decide, What can we do to avoid a charge of willful infringement? What can we do to make sure it doesn’t stick? What can we do to avoid a charge of inequitable conduct? When it is inevitably brought, what evidence are we going to have in the record to show that we have the requisite evidence of good faith? Having rules that aren’t automatically going to change with the makeup of the federal circuit will provide more certainty and significantly decrease some of the costs — and the angst.

CUNNINGHAM: The change in inequitable conduct does help the larger companies. It shifts the burden partially from the corporation to us, the practitioners, because the new rule is not going to penalize the corporation if its agent or an attorney inadvertently, or however, did not disclose certain information to the patent office.

CARR: Having strict, clear requirements for inequitable conduct challenges, or other bases for challenging a patent, is a very good thing. But as far as legislating it goes, I think it’s kind of crazy. The courts are always evolving the law, and to build into a statute what counts as inequitable conduct just locks it in place and doesn’t allow for development of the law. The same thing goes for willfulness.

REIMER: One of the issues we see is that standards for inequitable conduct change and prosecution of a patent application occurs five or 10 years before it’s actually litigated. So what was acceptable behavior at the time may actually be considered inequitable conduct 10 years later, as the court cases change the standard.

CARR: I agree that the law continually evolves, but I think the test should be what the standard of conduct was at the time the patent was filed.

O’KONSKI: One of the reasons for the proposed change is the lack of uniformity of results in district court cases. Some judges are really intrigued by the inequitable conduct defense. They see this notion of acquiring a patent inequitably and with deceptive intent, and right away they pay more attention to it than it perhaps deserves. Other judges, often more experienced in dealing with patent litigation, give inequitable conduct only the attention it deserves. In any event, the defense, although frequently pleaded, is rarely sustained in patent litigation.

CARR: That might be the motivation for the proposed changes, but the federal circuit has already recognized that inequitable conduct is raised too frequently and has actually called it a plague, and is addressing the issue of uniformity of application of the law.

CUNNINGHAM: I want to comment on what Tom said. Sometimes judges focus on inequitable conduct or willfulness issues. I think they do so because it is easier to focus on these issues than on the actual technical details of the case. For the courts, inequitable conduct and willfulness issues are a lot easier to understand and deal with ...

O’KONSKI: It’s like a criminal charge.

CUNNINGHAM: ... as opposed to the nitty-gritty details and the technical aspects of complex intellectual property litigation.

O’KONSKI: I tend to be in favor of having the standards set forth in a statute, for willfulness particularly.

CARR: I would be on the opposite side of the fence. I think willfulness actually sounds more in tort, and you apply a duty of care. Inequitable conduct is something that should be addressed by the court, not the PTO.

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MODERATOR: What would be the effect of the patent office's proposed limit to the number of continuation applications?

REIMER: We don't think it will significantly decrease costs in the patent office, and it will cost the client more money to do less. Right now they are proposing to limit continuations so strictly that we will probably have to select what parts of an invention are the most important to protect, and we may not be able to file the required continuations and divisional applications that we should be able to file to protect the rest of them.

CUNNINGHAM: We, the attorneys, are going to have to come up with different strategies that may result in more patent applications filed in the patent office.

REIMER: Absolutely.

CUNNINGHAM: And more appeals, which is just going to bog down the patent office even further.

O'KONSKI: The reason for this proposed change relates to those who have abused the continuation process. Take the case where a patent applicant files continuation after continuation with no substantive change. In each case the applicant ends up with a final rejection. The applicant simply refiles until he or she gets a different patent examiner with a slightly different view of the prior art and finally obtains an allowance. Whatever regulations are promulgated by the patent office will undoubtedly be a trade-off between the impact they have on legitimate use of continuing applications versus dealing with the abuse aspect.

REIMER: Companies where innovation occurs quickly — those are the ones that really need the continuations and continuations-in-part. This will result in encouraging minor improvements and discouraging major innovations.

CUNNINGHAM: I think for highly innovative companies it would be more difficult to protect the entire invention, especially if it is a new system or something extensive.

CARR: And how do you protect the value of the invention without being able to have the right number of claims and being able to use continuation applications? If you read that proposed change in the context of the damages proposal, which would tie damages to the value of the patented features of the accused product, then you have a problem. If the court starts focusing on the number of features as a basis for calculating damages, it would encourage a lot of dependent claims with more specific limitations and that kind of thing. That won't work with limitations on the number of claims.

O'KONSKI: What about the practice of keeping a continuing application pending just to see what your competitors are going to do in the marketplace, hoping that you can draft claims to cover your competitors' products? A lot of companies do that as a matter of routine.

REIMER: But they can only change their claims to match what they already have, so if they were not the first inventors they will not be able to obtain claims that they didn't deserve.

O'KONSKI: It will be interesting to see how that plays out as a corporate practice.

CARR: It will give the litigators something else to fight about.

MODERATOR: Is this going to have a different impact on, say, biotech and pharmaceuticals than on some other industries?

CARR: I think that it impacts the more incremental advances and crowded fields less than areas where you might have a comprehensive, classic invention that the layperson thinks of as an invention. For example, with a drug that's a totally new class you may need to have a whole series of dependent claims. The only approach you really could take to address it would be to file a whole bunch of patent applications, which isn't necessarily fostering efficiency.

MODERATOR: Does the patent office's proposed limit of 10 initial claims make sense?

Whatever regulations are promulgated by the patent office will undoubtedly be a trade-off between the impact they have on legitimate use of continuing applications versus dealing with the abuse aspect.



CUNNINGHAM: If you are filing applications for a very minor incremental invention, then 10 claims could definitely suffice. If you are talking about some major innovation, 10 claims do not even come close.

REIMER: In order to get more claims considered you have to prepare a pre-examination document which is very similar to the current Petition to Make Special. We've prepared a couple of those Petitions to Make Special and they cost about twice what the application itself cost. So if a company wants to have more than 10 claims examined, they can look at their application costs' tripling and they can also anticipate, later on in litigation, having statements made in that pre-examination document subject to the scrutiny of many, many litigators.

O'KONSKI: It's a high-risk exercise because you have to point out what the reference shows in terms of the claimed invention, and also what it doesn't show. You have to go beyond what you normally argue in responding to an action.

CUNNINGHAM: No matter how careful you are, if you spent 10 hours preparing a document and then litigators spend hundreds of hours going over it, it is easy to find something that was mischaracterized or was not properly stated or the context has changed.

REIMER: You may as an attorney be construing a claim limitation one way, and if the court decides to construe it a different way then, absolutely, the analysis that you did will be incorrect. And now you have to explain to a jury why that's not inequitable.

CARR: It will be the full employment act for my practice.

MODERATOR: What would be the effect of proposed changes to the Information Disclosure Statement, the IDS, that's filed with the patent application?

CUNNINGHAM: These changes would not be positive, in my view; again, they are very burdensome. The proposed changes require that any non-English reference be explained, any reference over 25 pages be explained and, if there are more than 20 references, each reference needs to be explained. That creates too much prosecution file history.

O'KONSKI: It increases the cost of preparing and obtaining a patent, and in that sense disfavors the individual inventor and small entity.

CUNNINGHAM: Even for large companies the costs are going to be burdensome, because spending time explaining every reference could be more costly than preparing the entire application.

CARR: As a practical matter, all those statements really are some of the best evidence that will end up being used in a trial down the road.

REIMER: Practitioners and inventors will have to decide, do I omit this reference or do I list and explain this reference? It's a rock and a hard place because if they don't list the reference, that presents an opportunity later on in terms of inequitable conduct. If they explain the reference, it's the same result.

CUNNINGHAM: If these rules are implemented, the burden is shifted onto counsel to do what the PTO has historically done, or should be doing.

REIMER: Something like a Petition to Make Special, which is truly optional, that's something that the inventor needs to weigh. But the IDS rules would not be optional — and that's where the burden really falls on the inventors.

CARR: This may have been motivated by good intentions, but the net effect is that it's going to unduly complicate the procedure, and unduly complicate litigation, and cost the little guy and major companies a lot more money both to obtain patents and to protect them down the road.

O'KONSKI: But it's going to whet your appetite as a litigator because the last thing you want to see is a first action allowance with no claim amendments or patentability arguments. What you like to see is a lot of discussion of the prior art — what it teaches, what it doesn't teach.

REIMER: What an invention is, or isn't.

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MODERATOR: Congress has proposed a post-grant opposition procedure in the patent office — rather than in court — that is meant to cut the cost of third-party challenges to patents.

O'KONSKI: I think it's a great idea. I'm sure others will disagree. Hopefully it will be a better tribunal in general than reexamination, which allows only certain prior art to be cited and involves a single patent examiner. The proposal presumably will expand the prior art that can be cited and involve a panel of three senior examiners. Discovery will be allowed from those who submit declarations or affidavits regarding the prior art. I think post-grant opposition is a way to challenge the validity of a patent inexpensively, with minimal delay and, hopefully, in a competent tribunal.

CUNNINGHAM: That is the question — will it be competent? I think the quality of examination by the PTO has declined. Unfortunately, we can institute many new procedures, but these procedures are only as good as the quality of the examination.

REIMER: Most patent prosecutors have no experience in conducting discovery or presenting evidence. So it will not be a cheap process because you'll probably need at least two people: one to stand in front of the PTO and one to actually conduct the litigation aspect of the procedure.

CARR: And there may not be people on the panel that actually have any experience whatsoever with litigation.

O'KONSKI: You take away the right to a jury trial by the patentee and the right to have the presumption of validity, so it's a trade-off between the rights of the patentee versus providing an economical method for challenging the validity of a patent.

MODERATOR: Could third parties abuse the opposition procedure by forcing a patent holder to defend numerous challenges?

O'KONSKI: An unsuccessful opposer will be estopped from raising, in a subsequent opposition or litigation, the arguments made and prior art relied upon in the unsuccessful opposition.

CARR: Right, but that's only for the arguments that you actually raise. You could still challenge a patent in court based on other things, even on another invalidity defense. You could try your luck with one piece of prior art with the patent office if you think it might be something the patent office might be receptive to; if that doesn't work you could then go and try your luck with an argument you think might be more effective with a jury in court. I think the net effect will be it will totally undermine the strength of patents in our country.

REIMER: I think the perceived need for this process would be less if people thought the PTO was doing its job.

CUNNINGHAM: We currently have reexamination proceedings. There is *ex parte* reexamination, where the requester cannot participate, but there is also an *inter partes* one, where the requester can participate. If that process was properly and correctly administered, it could be sufficient.

O'KONSKI: I'm sure we all have been involved in a case where a company is out there asserting a patent that everybody in the world knows to be invalid. The company asserts the patent against major companies, demanding licensing fees on the order of \$500,000. Now if you're a Fortune 500 company and you've received a notice of infringement, you're likely going to pay the \$500,000 even if you think the patent is invalid, because it's going to cost you \$1.5 million to \$2 million to prove it's invalid in court. A smaller company may have no reasonable option but to challenge the patent. So a procedure like this might be a reasonable alternative to paying the \$500,000 licensing fee for rights to an unworthy patent.

CARR: Right, if it ends up being a more streamlined procedure. But I foresee this will end up costing, in money and time, as much as a regular litigation could end up involving.

MODERATOR: How will you be counseling your clients to prepare for patent reform?

CARR: Keep your fingers crossed that it doesn't happen.

O'KONSKI: My advice would be just the opposite. I think, by and large, the changes are positive. They hopefully will reduce the burden of litigation; litigation is very expensive. If this allows more patent holders to enforce their patents or allows accused infringers to defend themselves on an economical and streamlined basis, then it's a positive change.

CUNNINGHAM: I am not sure which changes will pass and which will not, so at this point I would not advise my clients to do anything different. But when any changes do pass, we are going to have to re-strategize — and pretty quickly.

MODERATOR: What about the proposed patent office rule changes?

REIMER: We hope that the comments that were submitted are being paid attention to and, if they are going to make changes, they won't be so draconian for the inventors. ■

panelist bios



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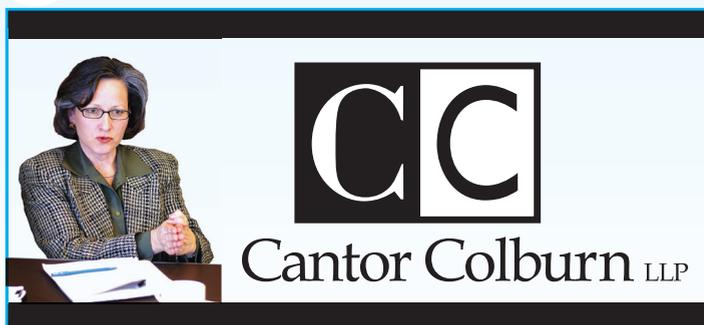
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