

# Patent law reform: Perfect storm buffeting the landscape



**By Keith Taboada and Eamon Wall**

The patent landscape is not static. Changes in the standards for determining patentability have impacted issued patents and pending patent applications alike. In the case of issued patents, claims failing to meet a newly modified requirement for patentability (e.g., a less rigidly applied obviousness standard), the issued patent claims may now be invalid and the patent worthless. In the case of pending patent applications, narrower and/or more creatively drafted claims may be needed to ensure that patentability requirements are met. The economic decisions regarding whether to file a patent application also are impacted. Procuring, maintaining and asserting a patent are extremely expensive undertakings. The patent may be necessary to the survival of the company, useful in a marketplace or for legal jockeying with other

companies, or simply protecting a technology that may have strategic value. In each case, the business reality behind the decision to seek patent protection is affected by changes in the evolving patent landscape.

From the perspective of patent owners, the pendulum is clearly swinging away from strong, enforceable patent rights toward increased uncertainty in both patent procurement and patent enforceability. This movement seems to be at odds with the strengthening of patent protection in other countries, such as the developing countries in Asia. Three institutional movements are pushing the patent landscape in this direction: namely, patent law reforms under consideration by Congress, patent rule changes envisioned by the U.S. Patent and Trademark Office (PTO), and several important rulings by the U.S. Supreme

Court and the Court of Appeals for the Federal Circuit (CAFC). Congress has been perceived as failing to ensure that the patent system is equitable and supportive of innovation and growth within the economy, the PTO as issuing too many patents of dubious patentability (and for taking too long to complete the patent examination process), and the judicial system as enabling the unfair extraction of licensing fees by forum-shopping litigants wielding their presumptively valid patents. All of these institutions are responding in their own way, but their combined response may have the unintended consequence of unduly limiting patent strength to the detriment of the nation's economy. In this article we will briefly summarize each of these movements, provide our opinions as to their impact, and provide suggestions to assist the business owner.

## Congress

Congress is considering major changes in patent law. Both HR 1908 (passed by the House on Sept. 7, 2007) and S.1145 (favorably reported out of the Senate Judiciary Committee on July 19, 2007) address several key aspects of patent law. Some of the proposed changes warrant consideration by companies during the patent procurement stage, including (1) a change from the present "first to invent" system to the "first to file" system used throughout the rest of the world; (2) the establishment of a post-grant opposition proceeding; and (3) a mechanism enabling the submission of prior art by third parties. Some of the proposed changes will adjust the risk calculations made by companies during patent disputes such as patent assertion and licensing negotiations, including (4) a heightened standard for a finding of willful infringement; (5) a codification of damage calculation methods; and (6) a mechanism to reduce venue shopping. These and other important changes in patent law are likely to pass in some form and will directly affect patent applicants and litigants as well as their patent attorneys/agents.

The first group of proposed changes will tend to increase the number of patent application filings while decreasing the number of resulting patents. The likely result will be an increase in patent quality since interested parties may contest claim scope by submitting prior art for the consideration by the PTO before a patent issues and opposing the scope of claims after patent grant.

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### First-to-file

Under the first-to-file system, the first inventor to file a patent application will likely prevail over later filing inventors claiming the same invention. There may be a one-year personal grace period for an inventor to file the patent application, as well as a Derivation Proceeding to determine whether the first inventor to file was, in fact, an inventor. As a strategic response, the typical company or inventor will need to more quickly decide whether a patent application filing is appropriate for a given invention. Thus, for an R&D project yielding a sequence of potential inventions, a decision to file each of a corresponding sequence of patent applications must be made. In this case, the first-to-file system dictates that earlier filing decisions will be made such that a given sequence of potential inventions will

generate more patent application filings. The final commercial embodiment of an invention may be difficult to capture due to the rush for early patent filing. By contrast, the existing first-to-invent system allows for a more relaxed filing schedule to identify inventions worth protecting.

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### Post-grant challenges

The post-grant opposition proceeding, used around the world, enables third parties to challenge the validity of patent claims within a PTO proceeding rather than in a more-expensive courtroom setting. With post-grant opposition, companies now will have an opportunity to challenge the scope and/or validity of patent claims as soon as possible. Strategically, by monitoring issued patents of competitors (especially litigious competitors), those patents including claims that are overly broad or of questionable validity may be identified and attacked before being asserted as part of a lawsuit. The downside is that patents and patent claims surviving this attack will be stronger. The differences between the House and Senate versions primarily pertain to burdens of proof and presumption of validity.

A mechanism enabling the submission of prior art by third parties enables a third-party to submit to the PTO prior art potentially relevant to the examination of a patent application after the publication of a patent application. Strategically, by monitoring the published patent applications of competitors, those patent applications including claims of concern to a company may be preemptively attacked by supplying relevant prior art to the PTO so the scope of a subsequent issued patent may be limited. As with post-grant opposition, patents and patent claims surviving the process will be stronger. The submission of third-party prior art, as well as the post-grant opposition proceeding discussed above, provide savvy companies with the opportunity to narrow the scope of competitors' patents. As an added bonus, these mechanisms operate to enhance patent quality by reducing patent scope in a relatively inexpensive manner.

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### Liability and damages

The second group of proposed changes clarifies some of the risk factors associated with patent infringement liability and damages. The likely result will be a

diminished damages expectation by both parties in a patent infringement litigation, which may operate to reduce the number of infringement actions litigated to verdict, and to generally tamp down settlement costs for potential infringers.

A heightened standard for a finding of willful infringement will reduce the likelihood of patent owners receiving treble damage awards. Thus, the risk calculations made during patent disputes will be tipped to some extent in favor of infringers and potential infringers, thereby reducing the intrinsic value of a patent infringement claim. In short, the increased uncertainty with respect to willfulness, when injected into a patent dispute, will, to some degree, embolden infringers and inhibit patent owners.

A codification of damage calculation methods will reduce the variability in predicting damage awards such that litigants may make more informed decisions during patent dispute negotiations. As with any mechanism that reduces the downside uncertainty faced by a potential infringer, codification of damage calculation methods will likely lead to more constrained upper settlement costs than heretofore existed. Part of this codification provides a damage apportionment definition that takes into account the value of the patent under litigation vis-à-vis the overall value of the market associated with the infringing product and the relative necessity of the patent with respect to other patents covering the underlying technology supporting the market. This will shift the balance of power in favor of those companies holding patents covering the core aspects of an underlying technology supporting market.

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### Venue shopping

A mechanism to reduce venue shopping is intended to reduce the number of filings in so-called "rocket docket" or "plaintiff friendly" jurisdictions. Whether or not these characterizations are true, the proposed changes pertaining to venue do reduce the risk of being sued in a venue having little or no relation to defendant location or other traditional venue provisions. As such, patent risk assessment may be made with greater emphasis on the jurisdiction associated with existing or planned corporate locations.

These and other changes in U.S. patent law will likely be enacted sometime this year. As previously noted, many of these changes are appropriate and will help

fine-tune the patent system. It is of critical importance for business owners to understand the laws and prepare appropriately. The patent system does provide tremendous opportunity to those who are innovative in their approach to technical problems and deliberate in their approach to the resulting business opportunities.

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## The PTO

The ability of the PTO to examine applications and issue high quality patents is resource constrained. At present, these resources are overwhelmed by increases in patent application filings, insufficient retention of trained patent examiners and an insufficient hiring rate of new patent examiners. In response, the PTO has decided to modify the rules and regulations associated with patent procurement to ease congestion and improve quality and efficiency, and so on. Unfortunately, the proposed new rules push too much of the traditional PTO workload back upon the patent community and, importantly, operate to diminish the patent protection available to inventors.

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## Search requirements

One unfortunate proposed requirement (by the PTO and Congress) is for a patent applicant to submit a detailed search report with affirmative statements regarding the applicability of the prior art to the claimed invention. There is tremendous opposition to this requirement within the patent community due to dramatically increased cost. In addition, the ethical obligations of patent practitioners (e.g., patent attorneys and patent agents) requires a very high level of scrutiny when characterizing the applicability of prior art to a claimed invention. A misstatement or unintentional omission on the part of a practitioner may quickly rise to the level of "inequitable conduct" such that a resulting patent is deemed invalid.

With respect to diminished patent protection, adoption of the proposed rules has been enjoined by the CAFC, which found the proposed new rules limiting continuing applications and number of claims likely overstep the regulatory authority granted to the PTO by Congress. One response by the PTO is to seek the regulatory authority found lacking by the CAFC (HR 1908 and S.1145 both address this point).

Specifically, current rules allow an inventor to file (with payment) continuing patent applications based on an initial patent application such that all the patentable subject matter within the initial (and continuing) patent applications may be claimed within an issued patent. By restricting the number of continuing patent applications that may be filed, the proposed rules may prevent the capture in an issued patent of the total subject matter that the applicant is entitled to claim. This problem is exacerbated by other proposed rules that limit the number of claims in each application, thereby further reducing the total number of possible claims.

The PTO rule changes will eventually be promulgated, though likely with increased availability of continuation and divisional applications. Unfortunately, these changes and others under consideration by the PTO such as proposed disclosure and appeal rules will dramatically increase the costs associated with procuring a patent. Such increased costs will further stress the intellectual property budgets of U.S. corporations and reduce their competitiveness.

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## The courts

A number of recent rulings by various courts have impacted patent procurement and litigation strategies. For example, patent procurement was affected by the U.S. Supreme Court in *KSR International Co. v. Teleflex, Inc.*, which lowered the threshold necessary to support a finding of obviousness of a claim. This has led to additional rejections at the PTO examination stage and fewer reversals at the PTO appeal stage. However, this higher level of scrutiny will result in more robust and enforceable patent claims. This holding also has hung a cloud of uncertainty over the validity, enforceability and value of some issued patents. Thus, issued patents may be more difficult to assert in an infringement action, and opinions (validity, non-infringement etc.) rendered under the old standards may need updating. Similarly, litigation strategy was affected by the CAFC in *In Re Seagate Technology, LLC*, which removed the previously understood affirmative duty of an infringer to obtain an opinion of counsel to avoid a finding of willfulness

## Recommendations

For companies engaged in patent procurement, the practices of their in-house and outside patent counsel should be adapted to seamlessly transition toward the expected changes in patent laws, rules and regulations. In addition, companies should ensure that their inventions are worth the increased cost of obtaining patent protection, and that the claims defining their inventions satisfy the increased scrutiny level now applied within the examination process. Legal opinions relating to key products and strategic decisions should be updated, and corporate decisions based on these opinions should be reviewed. IT infrastructure (either in-house or with outside counsel) should be adapted to ensure that relevant prior art for each patent application or patent is cited in other patent applications where appropriate.

Owners of issued patents should assess the strength and validity of their patents given the emerging conditions impacting patent value. Less-valuable patents should not necessarily be abandoned, since even marginally valuable patents have use to another party within, for example, another corporate division or as a licensing revenue source. Moreover, patents associated with increased uncertainty with respect to validity or enforceability should be identified so that appropriate assertion and/or licensing decisions may be made.

All companies should be monitoring patent publications and patent grants associated with their competitors to identify threats and, if possible, take actions calculated to diminish these threats. Upon being enacted into law, post-grant opposition and third-party sighting of references will provide a valuable mechanism to minimize exposure to the potential cost and inconvenience of future litigation. ©

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