

## Special Feature—Patent Legislation - Meeting the Challenges of Reform?

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The Patent Reform Act of 2011 was introduced to Congress on Tuesday, January 25, 2011 by Senator Patrick Leahy (D-VT). This legislation seeks to harmonize the U.S. patent system with the patent laws of other industrialized nations, improve the overall quality of patents, promote economic growth, and follows the introduction of similar bills in 2005, 2007, and 2009. Increased awareness of the value of intellectual property in the U.S. economy, along with President Obama's emphasis on technology in his recent state of the Union address, may make passage of this bill more likely than prior versions. See Arti Rai, Stuart Graham & Mark Doms, Patent Reform: Unleashing Innovation, Promoting Economic Growth, and Producing High-Paying Jobs (A White Paper from the U.S. Department of Commerce) (April 13, 2010); President Barak Obama, Remarks by the President in State of the Union Address (January 25, 2011) ('In America, innovation doesn't just change our lives. It is how we make a living.').

Nevertheless, while aspects of the new legislation undoubtedly improve the U.S. patent system, which has not been significantly updated in nearly 60 years, implementation difficulties could overshadow the ultimate goals of the legislation. Additionally, from the author's perspective, the bill does not adequately meet all of the major challenges facing the patent system.

The legislation proposes new procedures, and reworks existing ones, in order to improve the quality of issued patents. For example, in a proposed procedure, third parties would be able to submit prior art to the United States Patent and Trademark Office (USPTO) prior to issuance of a patent. Allowing third parties to assist examiners by providing the most relevant prior art could lead to more rejections of poor quality applications, and subsequently increases certainty in the market place of the quality of issued patents, positively impacting both licensing and investments. But, the bill does not appear to contemplate the challenges for Examiners in implementing this proposal. Prior art documents cited by applicants and their attorneys defensively to avoid charges of inequitable conduct already flood Examiners, who must consider all of the prior art in a given case. Allowing third parties to submit even more documents could worsen this problem. Notably, while the legislation restricts the time period for submitting documents by third parties and requires them to

provide a concise statement of their relevance, it does not provide a limit to the number of prior art references that may be submitted by third parties. If third parties submit large numbers of documents, it could potentially delay the prosecution of any given application and collectively lead to further backlogs in the patent examination system. While we support the submission of documents by third parties, we also suggest limiting the number of documents a third party could submit to a reasonable number, such as five or ten documents.

In another new procedure, a third party would be able to file for post-grant review of a recently-issued patent on any ground of invalidity. In theory, this procedure could quickly remove weak patents that cloud the market place and create uncertainty for innovators, thus opening up new areas for economic growth. Remaining tested patents could also stimulate the economy, increasing market value of innovating companies. The Patent Reform Act of 2011 limits filing for post-grant review to within 9 months of the patent's issuance, which is the same as the opposition period in the European Patent Office (EPO). The legislation also provides a threshold that the Director may not authorize post-grant review unless the information, if not rebutted, would more likely than not render at least one challenged claim unpatentable.

The new legislation attempts to integrate post-grant and inter partes review by only allowing filing for post-grant review within nine months of the issuance of the patent and inter partes review after the later of the end of the nine month period or the termination of a post-grant review proceeding. The legislation also encourages earlier challenges by allowing broader grounds in a post-grant review proceeding, while limiting the grounds for challenging the validity of a patent in an inter partes review to novelty and obviousness based only on patents or printed publications. Earlier challenges would increase confidence in the patent system.

While we support post-grant and inter partes review, we also have concerns regarding implementation. Post-grant review would be conducted by at least three members of the Patent Trial and Appeal Board, which would be created under this legislation and would be composed of the Director, the Deputy Director, the Commissioner for Patents, the Commissioner for Trademarks, and the administrative patent judges (APJs). Currently, the APJs sitting on the Board of Patent Appeals and Interferences have a significant backlog of cases. According to the USPTO Patent Dashboard (<http://www.uspto.gov/dashboards/patents/main.dashxml>), pendency to a Board decision has steadily increased from 67.3 months in October 2008 to 77.9. This represents a delay of almost three years over pendency of an application that is not appealed to the Board (current traditional total pendency including RCEs is 42 months). The USPTO and the APJs would face a significantly increased workload by inviting post-grant review. The USPTO and the APJs would need to employ creative staffing and training programs in order to meet the increased workload without compromising timeliness or the quality of the review. The same concerns apply to moving inter partes review from the reexamination group to the APJs, further adding to their workload.

While legislation does contemplate a graduated implementation of both post-grant and inter partes review procedures for the first four years following the effective date of the legislation, even a limited number of cases could cause further delay. Looking at the mounting delays at the Board of

Patent Appeals and interferences since 2008 does not reassure us that even very gradual implementation will solve this potential problem. And, taking only a handful of cases would not measurably impact patent quality or provide a useful alternative to more expensive litigation for the patent community as a whole.

Additionally, we feel that the current legislation does not go far enough in addressing inequitable conduct and USPTO funding. Under the current proposal, the USPTO would be allowed to set its own fees. While some commentators are concerned about a potential rise in USPTO fees, this proposal does have some advantages. Currently USPTO fees are not synchronized with USPTO costs. A significant portion of fees paid occur after issuance of the patent and are paid as maintenance fees, yet most of the PTO's expenses are accrued before a patent is issued, i.e., during the processing, searching, and examining of applications. Therefore, if an application is abandoned during pendency or if some maintenance fees are not paid and the patent lapses, a USPTO user leaves a share of their expenses for other USPTO users who pay all of the fees due through the final maintenance fee. While increasing the initial cost of a patent discourages filing, which could lead to fewer filings, but stronger patents, it could also hurt smaller innovator companies, even though their fees might be proportionally lower under small entity and the newly-proposed micro entity rates. Additionally, providing the USPTO with fee setting authority will allow the USPTO to more aggressively manage applicant behavior, such as to further discourage the use of RCEs and promote compact prosecution with a smaller claim set. Many applicants, attorneys, and industry groups would likely object to behavior management attempts through revised fee structure.

The proposed legislation, however, fails to address the most significant fee issue—namely the diversion of USPTO applicant fees to other sectors of the government. On May 5, 2010, Director Kappos testified before the House Judiciary Committee that between \$146 million to \$232 million in applicant fees could be diverted away from the USPTO to fund other government projects. See United States Patent and Trademark Office: Hearing Before the Comm. on the Judiciary H.R., 111th Cong. 111-135 (2010) (statement of David Kappos, Director of USPTO). In order to ensure robust patent reform, the legislation should be revised to end the problem of fee diversion and many commentators have vocally criticized fee diversion.

Finally, in our opinion, the legislation fails in its attempt to address the looming problem of potential inequitable conduct charges facing patentees. Accused infringers raise inequitable conduct charges in a significant number of patent infringement litigations, harassing patentees and their prosecuting attorneys. See C. Mammen, Controlling the "Plague": Reforming The Doctrine of Inequitable Conduct, 24 Berkeley Tech. L.J. 1329, 1358 (2009) (inequitable conduct was pled in approximately 40 percent of all patent cases brought in district court). The legislation proposes a new procedure for supplemental examination, which a patent holder may request in order to have the USPTO consider, reconsider, or correct information believed to be relevant to the patent. This provides patentees an opportunity to demonstrate that prior art, for example, inadvertently not submitted during examination, may not meet the materiality standard for inequitable conduct, and could potentially cure that omission. It could also provide patentees a venue to correct a mistake in the example

section of a patent that a challenger could otherwise argue mislead the USPTO. In this newly proposed procedure, the USPTO would conduct the initial supplemental examination within three months, and the submission would only trigger a reexamination proceeding if a substantial new question of patentability is raised. The proposal indicates that a patent could not be held unenforceable based on information that was not considered in the initial examination, if that information was subsequently considered during a supplemental examination, and further clarifies that this proceeding (or the absence of) cannot be a basis for enforceability of the patent. The usefulness of this provision is limited, however, because the patentee must raise it before a challenger raises it in litigation. Therefore, while this procedure may provide a safe harbor if a patentee discovers an internal mistake, it may not actually reduce the number of cases where inequitable conduct is plead. In our opinion, patent reform should eliminate inequitable conduct as a defense in litigation and the U.S. should harmonize its laws with the patent laws of other industrialized nations that do not have these provisions. Only in U.S. patent litigation, infringers habitually assert inequitable conduct, requiring additional discovery and increasing both litigation costs and the length of litigation. Even the USPTO has complained about the volume of disclosure presented by patentees in an effort to avoid inequitable conduct charges and tacitly indicated that this practice is not in keeping with their goal of compact prosecution (see Director's Forum: David Kappos' Public Blog (Oct. 1, 2010)), but these suggestions for applicant behavior appear in direct conflict with Federal Circuit mandates to disclose more information about the prior art and examination in related U.S. and foreign prosecution. Legislation to end the defense of inequitable conduct presents the only comprehensive solution. Other commentators and industry organizations have likewise called for an end to inequitable conduct.

In conclusion, we agree with the urgency for patent reform and encourage Congress to pass this legislation, while working with the USPTO to ensure appropriate implementation. We also encourage Congress to reconsider eliminating inequitable conduct and ending fee diversion so that the USPTO has the resources to address the problems we have described. With reform of U.S. patent law, innovation, intellectual property, and their attendant economic benefits, will help drive technology industries further in the United States.

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