The Pendulum Swings Back – Sweeping Changes to Patent Law Pose New Challenges For Patent Owners

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Since the enactment of the Patent Act of 1952, patent law has evolved at a slow but steady pace to address changes in technology and new challenges posed by issues ranging from patent protection for living organisms to patent protection for business methods. Some commentators view these changes as a gradual swinging of the pendulum in favor of patent applicants and owners, as rights have expanded for patentable subject matter and enforcement of patents.

Times have changed – dramatically. Beginning with Markman v. Westview Instruments, Inc., 517 U.S. 370 (1996), the pace of patent-related decisions issuing from the Supreme Court has snowballed. Following Markman, the Supreme Court issued no less than 12 opinions that have dramatically altered the patent law landscape. Congress has entered the fray as well. Sensing the concern of certain segments of the market, Congress has proposed no less than fifteen bills to rein in what some view as a patent law run amok. Raising the specter of “patent trolls,” proponents of patent reform have sought to limit venue, damages, and even whole technologies from the reach of patent law. Meanwhile, the U.S. Patent and Trademark Office (USPTO) has become increasingly aggressive in seeking to alter the rules of patent practice to place additional demands and expense on patent applicants in an effort to reduce pendency for applications and increase the quality of patent examination.

Patent reform efforts generally fall into three categories: raising the bar to obtain a patent, limiting patent enforcement, and limiting remedies for patent infringement. Below are discussed recent changes in the law which impact these three categories of patent reform. Informed preparation can reduce the impact of these changes for patent applicants and owners.

A. Recent Court Decisions

1. Raising the Bar

Recent court decisions have raised the bar for obtaining a patent in several ways. In a landmark decision, KSR International Co. v. Teleflex Inc., 550 U.S. 398 (2007), the U.S. Supreme Court raised the bar for meeting the “non-obviousness” requirement by abandoning a “rigid” application of the “Teaching, Suggestion, Motivation” test in favor of a more flexible approach. Chief Justice Roberts summarized the current mindset of the court when he stated, “we’ve had experience with the Patent Office where it tends to grant patents a lot more liberally than we would enforce under the patent law.” Transcript of Oral Argument at 49, Quanta Computer, Inc. v. LG Electronics, Inc., 128 S. Ct. 2109 (2008). Under KSR, the patent office and courts can
rely on a wider variety of evidence to demonstrate the obviousness of a claimed invention and are no longer required to find a specific teaching, suggestion, or motivation to render an invention obvious.

In view of KSR, the USPTO drafted guidelines for applying the more liberal obviousness test of KSR. These guidelines first require that a Graham factual inquiry be conducted by the examiners and then allow for any rationale to be used to determine whether the claim would have been obvious to one skilled in the art.

KSR and the patent office guidelines will effectively shift the burden of proof to applicants to overcome obviousness rejections during prosecution. It will be easier for examiners to establish a “prima facie” or initial case of obviousness and thus shift the burden to the patent applicant to identify so-called “secondary considerations” when attempting to overcome the obviousness rejection. Thus, patent applicants should be prepared to provide, for example, unexpected or unpredictable results to overcome KSR-based obviousness rejections. Likewise, patent owners considering enforcing their patents should be prepared to offer evidence showing unexpected results, long-felt need, commercial success, and other secondary considerations before initiating a lawsuit in order to respond to more frequent obviousness challenges and a potential reexamination of the patent which may be requested by the defendant (or even initiated by the USPTO itself).

Recent Federal Circuit decisions have made business method patents harder to obtain and enforce. On September 20, 2007, the Federal Circuit issued three important decisions concerning method patents. In In re Comiskey, 499 F.3d 1365, 1379 (Fed. Cir. 2007), the court held that a bare mental process that does not use another category of patentable subject matter (i.e., machine, manufacture, or composition of matter) is not patentable subject matter. In In re Nuijten, 500 F.3d 1346 (Fed. Cir. 2007), rehearing en banc denied, 515 F.3d 1361 (Fed. Cir. 2008), the court held that methods of constructing signals are not patentable. Finally, in BMC Resources, Inc. v. Paymentech, L.P., 498 F.3d 1373 (Fed. Cir. 2007), the court held that a method patent is not infringed if the accused infringer did not perform each step itself (or have control over such performance), thus preventing plaintiffs from enforcing method claims where all the steps are not performed by a single party. Additional guidance from the courts will be coming soon. On May 9, 2008, a petition for Writ of Certiorari was filed in Nuijten, which will give the Supreme Court further opportunity to narrow the scope of patentable business method patents. On October 30, 2008, the Federal Circuit issued a decision in In re Bilski, 545 F.3d 943 (Fed. Cir. 2008), that many believe will place strict limits on business method patents. In Bilski, the court abandoned all previous tests for the patentability of business method patents in favor of a two-prong test requiring that the process be tied to a machine or transform an article into a different state or thing.

In view of these decisions, patent drafters should take precautions when drafting claims. For example, method claims should include use of a machine, manufacture, or composition of matter and also consider whether a single party will carry out all of the steps. For example, method claims which divide steps amongst two or more parties should be avoided (e.g., transmitting a signal from a network to a user carrying out additional steps).

2. Restricting Patent Enforcement

In a further attempt to curb the number of issued patents, and as a backlash against so-called “patent trolls,” recent decisions limit the ability to enforce patents and limit the remedies available for infringement. Patent enforcement and remedies for infringement have been limited by lowering the threshold for declaratory judgments, making willful infringement harder to prove, making it harder to obtain a permanent injunction, and raising the bar for induced infringement.

Patent owners need to be especially careful when sending “cease and desist” letters or even contacting a party regarding infringement of a patent. In SanDisk Corp. v. STMicro Electronics,
Inc. 480 F.3d 1372 (Fed. Cir. 2007), the Federal Circuit replaced the reasonable apprehension test with an “assertion of rights” test. When a patent owner asserts rights in a patent based on identified ongoing activity or planned activity of the defendant and contends the defendant needs a license, the test for declaratory judgment is met even in the face of direct and unequivocal statements that patentee has no plans to sue. Id. at 1381.

While the assertion of rights test gives defendants the ability to remove uncertainty regarding a particular patent, license negotiations have now become much more complicated. Declaratory judgments may be brought with little actual “controversy” because almost any interaction between a licensor and licensee may trigger a declaratory judgment. Under the assertion of rights test, it is difficult to see how a patent owner can bring a patent to the attention of a potential defendant without risking a declaratory judgment action against the patent. Thus, license negotiations are likely to become “nasty, short, and brutish.” Plaintiffs may rationally choose to file a lawsuit first in their forum of choice and then enter into license negotiations with the defendant. Patent owners seeking to avoid litigation entirely need to use extreme caution when dealing with potential infringers, because almost any letter alluding to the need to take a license may trigger declaratory judgment action.

Defendants previously risked liability for willful infringement and treble damages if they did not seek and obtain an opinion of counsel prior to infringing activity. This risk has been mitigated by the Federal Circuit requiring the plaintiff to prove “objective recklessness” by clear and convincing evidence and eliminating the requirement for an opinion of counsel to defend against a willful infringement claim. In re Seagate Tech., LLC, 497 F.3d 1360 (Fed. Cir. 2007). Thus, the overall value of patent litigation is reduced because plaintiffs are now less likely to obtain treble damages for willful infringement.

Limitations on the availability of permanent injunction remedies for patent owners also reduced the overall value of a patent lawsuit. In eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006), the Supreme Court held that the same four-factor test applied to permanent injunctions in non-patent cases would also apply in patent cases. The Court explicitly rejected the traditional rule that allowed patentee a permanent injunction absent “exceptional circumstances.” Id. at 394. The impact of this decision will be felt more by the so-called “patent trolls” who have been criticized because they allegedly do not “practice” the patents they assert.

In addition to permanent injunctions, the availability of remedies for induced infringement has been narrowed. In DSU Medical Corp. v. JMS Co., 471 F.3d 1293 (Fed. Cir. 2006), the Federal Circuit held that “[t]he plaintiff has the burden of showing that the alleged infringer’s actions induced infringing acts and that he knew or should have known his actions would induce actual infringements.” Id. at 1306. Under this new standard, a defendant must objectively “know” their actions would induce infringement. Defendants should therefore seek the opinion of counsel to provide conclusive evidence they lacked the specific intent (i.e., that they did not “know”) that their actions would induce infringement in order to avoid liability for induced infringement. Patent applicants should draft claims directed to systems and products provided by suppliers in addition to method claims directed to activities of direct infringers.

**B. Proposed Legislation and Proposed USPTO Rules**

In response to criticism that too many overly broad patents are being issued, Congress and the USPTO have proposed significant changes to laws and regulations. These changes include limiting continuations and RCEs, limiting claim numbers, increasing information disclosure statement (IDS) requirements, expanding the “prior user defense,” allowing post grant reviews, providing stricter venue requirements, and limiting reasonable royalties and past damages.

Recently, the USPTO sought to make sweeping changes by limiting the number of claims, continuations, and requests for continued examination (RCEs) that an applicant can file. Under the proposed USPTO rules, each application would be limited to two continuations per family, one RCE per family, and five independent claims with 25 claims total. 72 Fed. Reg. 46,716.7
The rules also require applicants to report to the USPTO patentably indistinct claims in the same or different applications. Id. Applicants complained that the proposed rules imposed severe costs on applicants and exceeded the authority of the USPTO. See, e.g., id. at 46,785, 46,807-16, 46,827-28, 46,831-32; see generally more than 10 briefs for amici curiae supporting plaintiff in Tafas v. Dudas, 541 F. Supp. 2d 805 (E.D. Va. 2008). An injunction was issued by the U.S. District Court in the Eastern District of Virginia. Tafas, 541 F. Supp. 2d 805. The case has been appealed to the U.S. Court of Appeals for the Federal Circuit, id., appeal docketed, No. 2008-1352 (Fed. Cir. May 19, 2008), and oral arguments were heard on December 5, 2008. If the rules are permanently enjoined, it is likely the USPTO or Congress will make further attempts to implement rules to restrict the ability of applicants to file continuation applications.

Accused infringers are also assisted under proposed legislation that expands the “prior user defense,” which allows potential infringers and competitors to institute a Post Grant Review of a patent and decreases venue options for plaintiffs. In addition, proposed legislation attempts to limit a plaintiff's ability to recover damages for patent infringement by limiting reasonable royalties to the value of the invention’s contribution over the prior art and limiting past damages to two years prior to filing the complaint.

Conclusions
Patent owners and defendants should pay close attention to these trends in the law. It appears that the pendulum has swung from a period of expansion of patent rights to a period of contraction and limitation of patent rights. Patent applicants face new challenges to overcome obviousness rejections both during prosecution and litigation. Patent owners face greater hurdles in seeking injunctions, proving induced infringement, and obtaining treble damages for willful infringement. Defendants have greater opportunities to seek declaratory judgment actions, limit remedies available to patent owners, and challenge patent validity. Congress is seeking to limit the availability of reasonable royalty damages and venue and provide greater opportunities to challenge patents.

Patent applicants need to invest their time and effort in drafting patent applications that can overcome the challenges under the new law. Evidence of unexpected results and other secondary considerations will be more valuable at an earlier stage in patent prosecution in order to overcome obviousness challenges. Patent owners need to be aware of the hair trigger for declaratory judgment actions in planning enforcement programs. Defendants also should be aware of these trends in the law to take advantage of new opportunities to challenge and defend against patents. Congress and the USPTO should take these changes in the law into account when considering enacting new rules or laws to avoid changes that are either unnecessary or potentially damaging.

Endnotes


3 Secondary considerations include unexpected or unpredictable results, commercial success and long-felt but unsolved need, failure of others, etc.

4 Thomas Hobbes, Leviathan (1651).

6 Indeed, as noted above, the lack of an opinion may be considered as evidence of the requisite intent for inducement. Broadcom, 2008 WL 4330323, at *12-*13.


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