

Patent Reform Legislation

Significant patent reform legislation is currently pending in Congress.

These articles review and analyze particular aspects of the Senate and House Bills.

REFORMING LITIGATION PRACTICES AND STRATEGIES

by Scott D. Stimpson, David C. Lee, and Rachel J. Lin¹

A. INTRODUCTION

The U.S. Senate approved Patent Reform Bill S. 23 on March 8, 2011, and the House of Representatives introduced its own bill, H.R. 1249, several weeks later. These bills are the culmination of reform efforts dating back to 2003 and of hundreds of congressional meetings since.² The stated goals of these bills are to improve the quality of U.S. patents and to provide better alternatives to litigation.³ While we wait for the Senate and the House to address differences in their respective bills, this article considers how various provisions may affect procedural aspects of patent litigation, and related strategic considerations.

We start with a brief description of the current system and the concerns that led to contemplation of patent reform. We next address some of the changes proposed by both the House and Senate versions of the proposed legislation, and then address the impact these potential changes could have on patent litigation procedure. Our conclusions are that the new law, if enacted in a form similar to either the Senate or House version, will create new issues and prompt new strategic decisions from both plaintiffs and defendants, in addition to generally providing new and potentially attractive alternatives to litigating validity claims.

B. BACKGROUND OF QUALITY CONCERNS – THE CURRENT SYSTEM

The U.S. Patent and Trademark Office (the “Patent

Office”) reportedly receives an average of 2,000 patent applications per day and has a backlog of more than 700,000 applications waiting to be examined.⁴ This application volume has led to concerns that U.S. patent examination is rushed and lacks sufficient quality.⁵

While patent quality relies primarily on the Patent Office and the applicant, there are opportunities for third parties to play a limited role under the current system. During examination, for example, third parties may utilize a “protest” procedure to alert the Patent Office to prior art or information material to patentability.⁶ A protest, however, must generally be filed before publication of an application.⁷ A third party can also indirectly influence examination by bringing prior art to an applicant’s attention and relying on the applicant’s duty of disclosure to relay prior art to the Patent Office.

After patent grant, any third party may test a patent’s validity through reexamination when there is a substantial new question of patentability.⁸ In both ex parte reexamination and inter partes reexamination, a third party may submit prior art and an explanation of how it applies to patent invalidity. For both reexamination procedures, however, the scope of review is limited, there is little incentive to commence them early in litigation, and there is no ability for the parties to settle and end the reexamination. Moreover, while inter partes reexamination allows the third party to participate through all stages of the reexamination, a third party

in ex parte reexamination is prohibited from further submissions after the initial statement and reply.⁹

Of course, a party that is accused of infringement may challenge patent validity by a declaratory judgment proceeding in court rather than through reexamination in the Patent Office. But the current system permits the party to initiate inter partes reexamination on the same art at any time before a final judgment in the civil action.¹⁰

The following section summarizes some Senate and House reform provisions that seek to improve patent quality and provide better alternatives to litigating validity issues in court.

C. PATENT REFORM PROVISIONS

1. Proposed Post-Grant Review

Post-grant review is a new procedure added by both reform bills. It is a type of reexamination, with notable provisions that encourage early challenges to patentability. For companies contemplating a challenge to the validity of a granted patent, this new option would provide an interesting alternative, with a few restrictions.

If the post-grant review procedures become law, there would be at least four significant differences from the old system which might make post-grant review an attractive option for companies concerned about a recently granted or reissued patent:

- (1) The standard for obtaining a post-grant review

would be relaxed from the “substantial new question of patentability” standard currently in place for reexaminations¹¹ to a preponderance of the evidence standard.¹² Thus, the bar for commencing a post-grant review would be lower.¹³

(2) Unlike current reexamination procedures, in post-grant review the patent could be challenged on Section 101 and Section 112 grounds, in addition to Sections 102 and 103.¹⁴ Moreover, while reexamination challenges under Sections 102 and 103 under current reexamination procedures can be based only on patents and printed publications,¹⁵ there would be no such restriction for post-grant reviews.

(3) The petitioner would be able to pick and choose invalidity grounds for the post-grant review – no longer would there be the fear of being estopped in litigation from asserting defenses that could have been (but were not) asserted in inter partes reexamination.¹⁶ (The petitioner would be estopped, however, from asserting in a later Patent Office proceeding any defenses that reasonably could have been raised.)¹⁷

(4) A post-grant review could be settled.¹⁸ Thus, unlike current reexamination procedures, the parties would be free to resolve their disputes amicably and end the Patent Office review.

There would be, however, some restrictions on post-grant reviews. Under the Senate version, post-grant reviews would have to be instituted within nine months of the patent grant; and under the House version, they would need to be instituted within a year of the grant.¹⁹ These timing restrictions may force difficult decisions for companies concerned about a recently issued patent. If the company has not been sued, for example, a decision would need to be made about whether to file a post-grant review within the narrow time window allowed (and potentially wake a sleeping dog); sit tight and possibly avoid a battle over the patent altogether; or be satisfied with a less attractive reexamination proceeding.²⁰

Another restriction on post-grant review is that it would not be available if the petitioner has already

filed a civil action challenging the validity of the patent. And, depending on which version of the bill is adopted, counterclaims for invalidity may count as such a civil action.²¹

If the petitioner files a civil action for invalidity after the post-grant review, the Senate and House versions differ on what consequences would follow. Under the Senate version, the post-grant review would stop; under the House version, the civil action would stop unless there was an enumerated exception, such as a claim for infringement.²²

2. Inter Partes Reexamination

Both reform bills would modify inter partes reexamination procedures, with some changes favoring the patent challenger, but with significant restrictions arguably making this option less desirable than post-grant review. Compared to post-grant review:

(1) The Senate version would allow reexamination to be granted under the lower preponderance standard, whereas the House version would maintain the current standard requiring a showing of a “substantial new question of patentability.”²³

(2) The bases for a validity challenge would remain limited under both versions – only challenges under Sections 102 and 103 based on patents and printed publications would be allowed.²⁴

(3) After a final decision, the petitioner would face a broader estoppel problem, being estopped from raising any argument that was or reasonably could have been raised in the reexamination.²⁵

Importantly, however, inter partes reexaminations could be settled, as is the case with post-grant reviews.²⁶

Thus, while there would be changes and some benefits to patent challengers with the revised reexamination procedures, post-grant review could be a more attractive option primarily due to the expanded grounds for challenging validity and a narrower estoppel in later litigation.

There are restrictions on the timing of inter partes reexaminations as well. Under both versions of the bill, reexamination would be available only after the period for post-grant review has expired.²⁷ Moreover, if the patent owner has served the petitioner with a complaint for infringement, the petition for inter partes reexamination would need to be made within a short time of the date of service (six months under the Senate version; nine months under the House version).²⁸ As with post-grant review, inter partes reexamination would be unavailable if the petitioner has already filed a civil action challenging validity.²⁹

3. Supplemental Examination

Supplemental Examination is introduced by the reform bills as yet another type of reexamination. It would allow the patent owner to request reexamination when there is a substantial new question of patentability.³⁰ It could be used to “consider, reconsider, or correct” relevant information.³¹ Supplemental Examination would allow, for example, a patent owner that has not been formally notified of an inequitable conduct problem, to potentially “wash” the art through the Patent Office and preclude a later inequitable conduct allegation.³²

4. Transitional Review of Business Methods

With respect to concerns about the quality of business method patents, both reform bills expressly provide for additional review of business method patents in a Patent Office proceeding called a “transitional proceeding.”³³ A transitional proceeding would be conducted like a post-grant review, but there would be some differences in timing and scope. A petition could be filed only by a person or party that has been sued for infringement or charged with infringement,³⁴ but the time limits applicable to post-grant review would not apply to a petition for a transitional proceeding.³⁵ The scope of review under Sections 102 and 103 would be limited to narrower categories of prior art.³⁶ Estoppel provisions would also apply.³⁷

5. Other Provisions

Perhaps the biggest proposed change in the patent reform bills is the move to a first-inventor-to-file patent system.³⁸ Procedurally, if and when this provision becomes law, it should simplify litigation, particularly in situations under the current law where battles are waged over dates of invention. But unlike the other provisions addressed in this article, it would not provide new or substantially modified alternative avenues to litigation.

A few other provisions are also worth mentioning:

(a) Although best mode under 35 U.S.C. §112 would be maintained as a requirement for patentability, it would be removed as a defense to patent infringement.³⁹

(b) The 2004 Federal Circuit Court of Appeals decision in *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004) (en banc), held that a decision not to present an opinion of counsel in litigation can no longer be used to infer willfulness. The reform bills codify this decision and further provide that such a decision could not be used to prove willfulness or inducement.⁴⁰

(c) Protests would be available, and third parties would additionally be permitted to submit prior art until six months after publication or until the date of a first rejection, whichever is later.⁴¹

(d) The false patent marking cause of action under 35 U.S.C. § 292 would be revised so that it could only be brought by the United States to assess a penalty or by a person who has suffered competitive injury to recover compensatory damages.⁴² This standing requirement would apply retroactively to any false marking case pending at the time of enactment.

The reform bills do not include several provisions debated in previous congressional sessions, such as provisions relating to transfer-of-venue and damages.

Although the reform bills contain many other provisions, they are outside the scope of this article.

D. POST-REFORM PROCEDURAL AND STRATEGIC ISSUES

Under either version of the proposed reform legislation, companies will need to make early decisions that could impact on such things as post-grant review, inter partes reexamination, preliminary injunction proceedings, and inequitable conduct allegations. Both patent holders and potential patent defendants will have new legislation to consider, and new decisions to make. Below, we address some of these issues from the perspectives of both patent holders and potential defendants.

1. Some Considerations for the Patent Owner

Patent holders looking for preliminary injunctions should consider filing a case and seeking a preliminary injunction within three months of the patent grant. If they do, then they would be assured of avoiding a stay of the motion for preliminary injunction pending resolution of validity issues in the Patent Office. At first blush, this timing issue may seem unimportant. After all, the Federal Circuit has already held in at least one case that it was abuse of discretion to stay a motion for preliminary injunction without considering its merits.⁴³ But new legislation will provide patent holders with another level of security, and hence they may want to commence consideration of preliminary injunction proceedings even while the patent is still in prosecution.

On the flip side for patent holders, bringing an early action on the patent may open up the possibility of a post-grant review procedure, where the patent defendant might never have brought that proceeding otherwise. That is, to avoid post-grant review possibilities, some plaintiffs might decide to remain quiet about the patent until after the period for post-grant review has passed, since post-grant reviews generally should seem less attractive to patent holders than reexaminations, which are more limited and create broader estoppels for patent challengers.

Another option that might be useful to patent holders in some situations is the Supplemental Examination, which could be used to “consider, reconsider, or correct” relevant information. If, for example, the patent holder sees a potential inequitable conduct issue brewing (one that has not already been asserted), Supplemental Examination will allow the art or other pertinent information to be considered through the Patent Office, and in most instances deprive the courts of the power to hold the patent unenforceable due to what might have otherwise been inequitable conduct.

2. Some Considerations for Potential Patent Defendants

Potential patent defendants will face some new strategic decisions, too. One general issue that should be considered with enactment of the new law is whether to monitor newly-issued patents in a particular field. Some companies (those particularly liking the post-grant review possibility) may opt to monitor newly-issued patents in their field, if not already doing so. Without monitoring, a newly-issued patent might go unnoticed until after the relatively short post-grant review period has expired. But for many companies (perhaps most), monitoring for newly-issued patents may not be worth the effort as it is yet another expense and burden on already taxed IP groups and their budgets. Moreover, there can be downside risks with monitoring. Willfulness and inducement, for example, are usually not alleged until after the time of first knowledge of a patent, so early knowledge of a patent raises this possibility.

If the potential patent defendant learns of the patent within the window of opportunity for post-grant review (by monitoring or otherwise), a decision must then be made as to whether or not to commence such a review. If the chances of litigation are considered high, good prior art is available, and there is a desire to avoid the more expensive litigation route, then a post-

grant review may be an attractive option. After all, the procedure has a relatively low threshold burden of proof, it allows for more invalidity challenges, and it will not create estoppels in later litigation for arguments that were not presented at the Patent Office.

Declaratory judgment actions, when personal jurisdiction and case or controversy exist, are also an option that should seriously be considered (particularly if venue is important), but under either version of proposed reform legislation, such actions will preclude post-grant review if filed earlier than the post-grant review petition, and they will also preclude inter partes reexamination. Ultimately, of course, each situation will need to be carefully considered based on the facts at hand.

The new legislation may also force other new and early decisions from the accused infringer. At least under the Senate version of the bill, counterclaims for invalidity (a very common practice under the current law) would need to be given serious consideration. If the Senate version is passed, a counterclaim for invalidity may preclude post-grant review or inter partes reexamination. Under the House version, there would be no such concern.

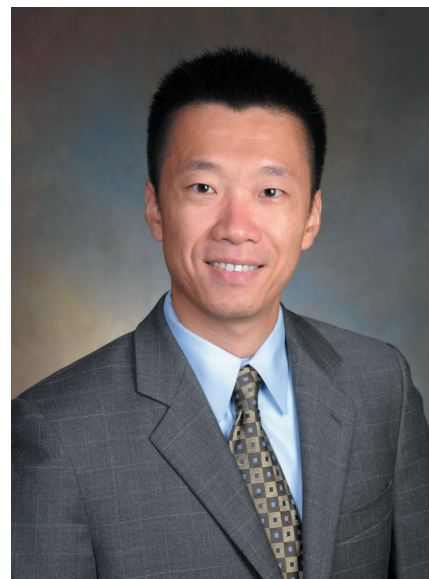
Also, after service of an infringement complaint, assuming the post-grant review period has not expired, a decision must be made as to whether to commence such a review. And if the post-grant review period has expired, an accused infringer has only six months (or nine months under the House bill) after service of the infringement complaint to petition for inter partes reexamination. Under these accelerated time frames, accused infringers interested in Patent Office alternatives will no longer have the luxury of putting invalidity analyses on hold. For those companies interested in post-grant review or reexamination, therefore, the short time frames may force an early and thorough prior art search and invalidity analysis, so that Patent Office procedures may be properly evaluated.

Under the reform provisions, potential infringers might also want to be more aggressive in investigat-

ing possible inequitable conduct, and if supported, making early accusations. Otherwise, patent holders would have the option of potentially preempting an inequitable conduct defense through Supplemental Examination – a patent holder option that under both versions of the bill will disappear upon notification of the defense by a pleading that specifies it with particularity. Thus, accused infringers would no longer be able to rely without risk on discovery requests to flesh out inequitable conduct defenses, as a patent holder who sees it coming could simply request Supplemental Examination. Accused infringers should be proactive, to the extent reasonably possible, in ferreting out inequitable conduct in detail even before discovery begins.

E. CONCLUSION

Under the proposed legislation from both the House and Senate, new (and some would say significantly more attractive) Patent Office invalidity proceedings will become available. But time restrictions will be in place, too - clocks begin to run with events such as issuance of a new patent and commencement of an action, and some procedures we take for granted today (e.g., invalidity counterclaims) may have limiting effects on the possibility of Patent Office review. So, for now, we wait to see how things evolve, and what legislation will ultimately be enacted. It appears, however, that patent practitioners and their clients can look forward to seeing some interesting changes in United States patent practice.



¹ Scott D. Stimpson is Member and Co-Chair of the Intellectual Property Group at Sills Cummis & Gross P.C. and is also a member of the New York Intellectual Property Law Association's Patent Litigation Committee. His practice focuses on complex patent litigation and counseling for companies in the United States and abroad. He can be contacted at ssimpson@sillscummis.com. David C. Lee and Rachel J. Lin are Associates in the firm's Intellectual Property Group, focusing on patent litigation, procurement, and counseling. The authors wish to thank Frank Morris of Ward & Olivo for his comments and contributions to this article.

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² See *Federal Trade Commission, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy*, October 2003; *Congressional Record-Senate*, March 8, 2011, pp. S1348, 1349.

³ See *Congressional Record-Senate*, at S1350.

⁴ *Id.*, at S1349.

⁵ *Id.*, at S1349-50 (Senator Leahy noting that “there is a concern about the quality of patents that have issued” and that “[p]atent examiners are facing a difficult task given the explosion in the number of applications.”)

⁶ 35 U.S.C. § 122(c); 37 C.F.R. § 1.291.

⁷ 35 U.S.C. § 122(c); 37 C.F.R. § 1.291(b).

⁸ 35 U.S.C. §§ 302 *et seq.*, 311 *et seq.*

⁹ See 35 U.S.C. § 305; 37 CFR § 1.550(g) (“The active participation of the ex parte reexamination requester ends with the reply pursuant to § 1.535, and no further submissions on behalf of the reexamination requester will be acknowledged or considered.”)

¹⁰ See 35 U.S.C. § 317(b).

¹¹ 35 U.S.C. §§ 303, 313.

¹² See Senate bill S. 23, p.51 (proposed Section 324(a)); House bill H.R. 1249, p.52 (proposed Section 324(a)).

¹³ There may be little practical difference, as about 92% of ex parte reexamination petitions and about 95% of inter partes reexamination petitions have been granted based on the “substantial new question of patentability” standard. See Patent Office statistics available at http://www.uspto.gov/patents/stats/Reexamination_Information.jsp.

¹⁴ See Senate bill S. 23, p.49 (proposed Section 321(b)); House bill H.R. 1249, p.50 (proposed Section 321(b)).

¹⁵ 35 U.S.C. §§ 301, 311(a).

¹⁶ See Senate bill S. 23, pp.53-54 (proposed Section 325(e)(2)); House bill H.R. 1249, pp.55-56 (proposed Section 325(e)(2)).

¹⁷ See Senate bill S. 23, pp.53-54 (proposed Section 325(e)(1)); House bill H.R. 1249, pp.55-56 (proposed Section 325(e)(1)).

¹⁸ See Senate bill S. 23, pp.58-59 (proposed Section 327); House bill H.R. 1249, pp.60-61 (proposed Section 327).

¹⁹ See Senate bill S. 23, p.49 (proposed Section 321(c)); House bill H.R. 1249, p.50 (proposed Section 321(c)).

²⁰ A company may not face this decision, however, if a new patent owner is eager to seek preliminary injunction, as the bills encourage filing an infringement claim within three months of patent grant by prohibiting, for such a filing, a stay of a motion for preliminary injunction based on a pending post-grant review. See Senate bill S. 23, pp.52-53 (proposed Section 325(b)); House bill H.R. 1249, pp.54-55 (proposed Section 325(b)).

²¹ See Senate bill S. 23, p.52 (proposed Section 325(a): “post-grant review may not be instituted or maintained if the petitioner or real party in interest has filed a civil action challenging the validity of a claim of the patent”). *But see* House bill H.R. 1249, pp.53-54 (proposed Section 325 has essentially the same prohibition, but with the exception that a counterclaim challenging validity does not constitute a civil action).

²² See Senate bill S. 23, p.52 (proposed Section 325(a): “post-grant review may not be instituted or maintained . . .”) (emphasis added); House bill H.R. 1249, pp.53-54 (proposed Section 325(a)(2): “Stay of Civil Litigation”).

²³ See Senate bill S. 23, pp.36-37 (proposed Section 314(a)); House bill H.R. 1249, p.37 (proposed Section 314(a)).

²⁴ See Senate bill S. 23, pp.34-35 (proposed Section 311(b)); House bill H.R. 1249, p.35 (proposed Section 311(b)).

²⁵ See Senate bill S. 23, pp.38-39 (proposed Section 315(e)); House bill H.R. 1249, pp.40-41 (proposed Section 315(e)).

²⁶ See Senate bill S. 23, pp.43-44 (proposed Section 317); House bill H.R. 1249, pp.45-46 (proposed Section 317).

²⁷ See Senate bill S. 23, p.35 (proposed Section 311(c)); House bill H.R. 1249, p.35 (proposed Section 311(c)).

²⁸ See Senate bill S. 23, p.38 (proposed Section 315(b)); House bill H.R. 1249, p.39 (proposed Section 315(b)).

²⁹ See Senate bill S. 23, p.37 (proposed Section 315(a)); House bill H.R. 1249, pp.38-39 (proposed Section 315(a)).

³⁰ See Senate bill S. 23, pp.81-84 (proposed Section 257); House bill H.R. 1249, pp.99-103 (proposed Section 257).

³¹ See Senate bill S. 23, p.81 (proposed Section 257(a)); House bill H.R. 1249, pp.99-100 (proposed Section 257(a)).

³² See Senate bill S. 23, pp.82-83 (proposed Section 257(c)); House bill H.R. 1249, pp.100-02 (proposed Section 257(c)).

³³ See Senate bill S. 23, section 18, p.100 *et seq.*; House bill H.R. 1249, section 18, p.108 *et seq.*

³⁴ See Senate bill S. 23, section 18(b)(1)(B), p.101; House bill H.R. 1249, section 18(b)(1)(B), p.109.

³⁵ See Senate bill S. 23, section 18(b)(1)(A), p.101 (the filing deadline of proposed “Section 321(c) . . . shall not apply to a transitional proceeding”); House bill H.R. 1249, section 18(b)(1)(A), p.109 (the filing deadlines of proposed “Section 321(c) . . . shall not apply to a transitional proceeding”). Requests for transitional proceeding are only available for a period of four years from implementation, however. See Senate bill S. 23, section 18(b)(3)(A), p.103; House bill H.R. 1249, section 18(b)(3)(A), p.111.

³⁶ See Senate bill S. 23, section 18(b)(1)(C), p.101-02; House bill H.R. 1249, section 18(b)(1)(C), p.109-10.

³⁷ See Senate bill S. 23, section 18(b)(1), p.101 (“The transitional proceeding implemented pursuant to this subsection . . . shall employ the standards and procedures of, a post-grant review under chapter 32,” including the estoppel provision of proposed Section 325(e)(1)); House bill H.R. 1249, section 18(b)(1), p.108-09 (“The transitional proceeding implemented pursuant to this subsection . . . shall employ the standards and procedures of, a post-grant review under chapter 32,” including the estoppel provision of proposed Section 325(e)(1)). See also Senate bill S. 23, Section 18(b)(1)(D), p.102; House bill H.R. 1249, Section 18(b)(1)(D), p.110.

³⁸ See Senate bill S.23, section 2, p.2 *et seq.*; House bill H.R. 1249, section 2, p.2 *et seq.*

³⁹ See Senate bill S.23, pp.90-91 (proposed amendments to Section 282); House bill H.R. 1249, pp.105-06 (proposed amendments to Section 282).

⁴⁰ See Senate bill S.23, pp.33-34 (proposed Section 298); House bill H.R. 1249, pp.107-08 (proposed Section 298).

⁴¹ See Senate bill S.23, pp.71-72 (proposed amendments to Section 122); House bill H.R. 1249, pp.75-77 (proposed amendments to Section 122).

⁴² See Senate bill S. 23, p.17 (proposed amendments to Section 292); House bill H.R. 1249, pp.106-07 (proposed amendments to Section 292).

⁴³ *Procter & Gamble Co. v. Kraft Foods Global Inc.*, 459 F.3d 842, 847 (Fed. Cir. 2008).