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US Election, Patent Reform Could Decide Fate of Voided USPTO Rules

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By Dugie Standeford for *Intellectual Property Watch*
A United States federal court in Virginia Tuesday voided US Patent and Trademark Office (USPTO) rules capping the number of continuation requests and claims patent seekers can submit without incurring additional costs and paperwork. The decision could spark a renewed agency push on Capitol Hill for rulemaking authority, and the fate of the rules could also hinge on the upcoming presidential election, patent attorneys said.

In his decision in the closely watched and highly controversial case, US District Court Judge James Cacheris said the agency overstepped its statutory authority by adopting substantive rules. The USPTO said it is considering its options and there are reports it will appeal.

In January 2006, the USPTO, facing a mounting backlog of applications, proposed restricting the number of continuing applications, requests for continued examinations (RCEs) and claims applicants can make as a matter of right, the court noted. The rules limited the number of continuing applications to two, plus a single RCE, and permitted a total of five independent claims or 25 total claims. Over those thresholds, patent seekers were required to show why they needed additional continuations or provide supplementary information to advance extra claims.

In August 2007, Connecticut inventor Triantafyllos Tafas sued the USPTO, claiming the rules substantially changed the regulatory landscape by cutting off future continuing applications, causing him to lose potential rights to the inventions that flow from his original work (Tafas v. Dudas). Tafas's case was later joined by pharmaceutical giant GlaxoSmithKline.

The rules were to become effective in November 2007 but were temporarily blocked (*IPW*, Patent Policy, 5 November 2007). Last December, the plaintiffs sought judgment

on the grounds that, as a matter of law, the USPTO lacked the authority to promulgate the rules.

The court held that the USPTO is authorised to make regulations relating to the conduct of agency proceedings but not to issue substantive rules. It rejected what it termed the agency's "attempt to abolish the substantive-procedural distinction," saying the balance of case law indicates the "distinction exists, and that it is pertinent to this dispute." The rules amounted to a "substantive departure from the terms of the Patent Act as they are presently understood, and were outside the scope of the agency's rulemaking remit, the court said.

A Sigh Of Relief?

The USPTO called the decision disappointing. "While considering next steps, our goal remains the same as it has always been: to improve the quality of the intellectual property system for the benefit of all," it said. The agency is reportedly planning an appeal to the US Court of Appeals for the Federal Circuit, PatentlyO blogger Dennis Crouch wrote.

Many in the patent community breathed a sigh of relief.

"We were gratified but not surprised," said Tafas attorney William Golden of Kelley Drye & Warren. The decision is sound, said Biotechnology Industry Organisation President Jim Greenwood. The rules would have hampered biotech inventors from obtaining adequate patent protection or attracting funding for innovative products, he said. The USPTO should find a better way to cut its workload, Greenwood said.

It was "heartening to see that Judge Cacheris understood that the effect of the rules would be to shift the patent examination process from the agency to patent applicants," said Woodcock Washburn attorney William Smith, a former Administrative Patent Judge at the USPTO who represents biotech, pharmaceutical, telecommunications and other high-tech companies. The patent community "can exhale for now," he said.

Many industry members anticipated a split decision, said Oblon, Spivak patent attorney Bradley Lytle. Some aspects of the rules, including their retroactivity and the cap on the number of continuation applications, appeared to run contrary to law while others seemed to be within the agency's authority, he said. Judge Cacheris "avoided the thorny job" of splicing the valid rules from the invalid by treating them as one package, he said.

A Temporary Reprieve?

The USPTO is expected to make a final push for substantive rulemaking authority as part of the patent reform package offered by Senate Judiciary Committee Chairman Patrick Leahy (Democrat-Vermont), Foley & Lardner patent attorney Harold Wegner said. If S 1145 is enacted according to USPTO wishes, it will legislatively overrule the Tafas victory, he said.

The current version of S 1145 does not contain language granting the USPTO rulemaking authority for continuation and other rules, but the text of the House-passed HR 1908 does, said Banner & Witcoff attorney Allen Hoover. Whether Leahy's compromise package will include the House provisions is anyone's guess, he said.

What the USPTO wants is "very unpopular" with all but a few companies embroiled in patent litigation, Hoover said. Any Senate measure specifically authorising the USPTO to adopt such rules is likely to fail, he said.

Smith said he hopes Congress understands that the agency will continue to try to shift the substance and cost of patent examinations to patent seekers if it gets substantive rulemaking authority. The added costs the rules impose "amount to a tax on the innovation process," he said. "In these fragile economic times," Congress should help the agency figure out how to improve its own internal processes before sticking a tax on the patent system, he said.

"I doubt that S 1145 will include substantive rulemaking, said Stephen Kunin, Oblon, Spivak partner and patent attorney, and former USPTO Deputy Commissioner for Patent Examination Policy. It could, however, allow the agency to promulgate applicant quality submission (AQS) rules permitting it to require applicants to conduct prior art searches and submit search results, he said.

AQS requirements in themselves would "be a huge shift in the legal framework" on which the US patent examination process is built, said Lytle. The requirements would force applicants to perform a "self-serve examination of their own application," resulting in different standards of review by different applicants and giving rise to many new complications in later patent lawsuits, he said.

New President, No Rules?

An appeal to the Federal Circuit could take a year to resolve, attorneys said. Even a win will not be much of a victory for the Bush Administration in its final months, Wegner said. He predicted an "unprecedented number" of amici will "come out of the woodwork" to support Tafas.

A new administration is likely to mean a new Commissioner of Patents, who may be persuaded by the unpopularity of the continuation rules to "try something else" to relieve the backlog, said Hoover.

The new administration will have a say in any appeal the USPTO files because there will be new political appointees in the director and deputy director seats, Smith said. The US Department of Justice will have to approve an appeal and its political appointees also will change as of 20 January, 2009, he said.

The impending change in administration might cause current officials to see their proposed solutions to the agency's workload are not viable and "pull them off the table,"

Smith said. The respite would give all sides time to engage in a more constructive dialogue, he said.

An appeal is “almost inevitable,” said Golden, but the decision it likely to stand. “The solution to the USPTO’s problems properly lies with Congress, not the courts,” he said.

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