

Patent Act Won't Meet "Efficiency" Goals: Sources

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Tuesday, Jan 29, 2008 --- As the U.S. Senate readies to move forward with its patent reform bill, attorneys are looking closely at the effects the bill would have on patent challenges, with many questioning whether the proposed changes would meet the legislation's stated goal of making the patent system faster and more efficient.

Proposing a wide variety of changes to the nation's patent laws, the Senate bill aspires to improve efficiency and reduce cost and uncertainty in patent litigation. Yet many are beginning to wonder if the legislation in its current form actually accomplishes what it set out to do, particularly in the realm of challenging patents.

"There's this trend to say, we want things to be efficient, fast and fair. One of the things you're seeing with the Senate version of the bill, it's not necessarily making the patent ecosystem any faster or more efficient," said Jason Sheasby, partner at Irell & Manella LLP.

Under the current system, those that wish to challenge a particular patent have two choices: launching litigation or filing a re-examination request with the U.S. Patent and Trademark Office.

The re-examination process was originally intended to be a less costly, more efficient alternative to litigation, in which parties could ask the patent office to review the validity of a patent.

Yet some of the restrictions built into the process, like limitations on the role a third party can play and the lack of a right to appeal, have turned the process into a less desirable alternative to litigation for many.

"Re-examination was viewed as not being a very effective way of ferreting out bad patents," said Matthew Becker, shareholder in the Chicago office of Banner & Witcoff Ltd.

The Senate bill aims to set up a process that would be more attractive to parties seeking to challenge patents. Section 5 of the Senate legislation completely scraps the more than 25-year-old re-examination process, replacing it with a new system called post-grant review.

Under the Senate's proposal, there would be three ways to start a post-grant review of a patent. One would be based on the consent of a patent holder. Any other challenges under the proposed post-grant process would have to

fall into one of two windows of time.

To file a challenge in the first window, a party would have to petition the director of the U.S. Patent and Trademark Office to initiate a post-grant review no later than 12 months after a patent was granted.

This provision aims to make the post-grant review process essentially another part of the examination process, expecting that interested parties will keep a close eye on patent grants and quickly raise potential problems as they occur.

“It would be a significant adjustment, because it requires a lot of monitoring of what your competitors are doing,” said Jay Erstling, professor at William Mitchell College of Law. “And it requires a much more active role, but it does allow competitors to have a say in the patent-granting process.”

After that first year, any challenges would fall under the second window of the post-grant process. A petition could be filed any time in the life of the patent, but only if the patent was likely to cause significant economic harm to the party seeking a review and if the petitioner made a request for review no more than one year after receiving a notice of patent infringement.

That requirement of “significant economic harm” has certainly raised eyebrows among many patent law practitioners, who wonder how the USPTO would interpret that phrase should it become law.

“What does that mean? What level of harm must you show to be significant? That's the big unknown,” Becker said. “You're asking the patent office to delve into questions of economics.”

In any case, any petition to start a post-grant review would have to raise substantial new questions of patentability. The bill again tasks the director of the USPTO with figuring out exactly what “substantial new questions” should mean.

Also, under the proposed post-grant review process, petitioners would get only one shot at challenging a particular patent.

Similarly, a petitioner who had already pursued litigation over a particular patent in court could not also file a petition with the USPTO for a post-grant review of the patent on any grounds they could have raised in court.

A petitioner who was unhappy with the outcome of a post-grant review process could file an appeal with the Federal Circuit.

The Senate also sets up new demands for the USPTO in the post-grant review process. A post-grant review would have to be completed within one year in most cases, and in 18 months if additional time could be justified. The bill also orders the director of the USPTO to establish rules on exactly how the post-grant review process would work.

One possible benefit of the proposed post-grant review process, according to several patent experts, is its potential to create a system able to quickly discover problematic patents.

“Nobody benefits from junk. And to the extent we can weed out the junk, it's a positive thing,” said Erstling, also of counsel at Patterson, Thunert, Skaar & Christensen PA. “I think the result is a stronger patent.”

But Matthew Becker of Banner & Witcoff wondered if the post-grant process would be readily embraced by those who have long seemed leery of the re-examination process.

“There's a little bit of a concern over what will be involved in the post-grant review process,” said Becker, noting that in many cases the bill leaves it to the patent office to put flesh on the legislative skeleton.

Others wonder if the details of the post-grant proposal, and the ability of competitors to voice objections soon after a patent is granted, points instead to a lack of confidence in the USPTO and its examination corps.

“Patent examiners are generally a well-trained, honest group of individuals, but I think they're overwhelmed,” Sheasby said. “Maybe this is not addressing the core problem.”

The Senate bill also aims to significantly change patent litigation, particularly when it comes to exactly where patents can be challenged. Section 8 of the bill takes on the controversial question of where parties can file patent suits.

Under the current system, venue is proper essentially wherever an allegedly infringing product can be found, which frequently means that patent holders can bring patent suits in any district they choose.

The Senate wants to limit those options in an effort to stop what some call “forum shopping.”

Under the bill, patent suits could be brought only where the defendant had a principal place of business or where it was incorporated. Potential defendants could also be sued where infringement occurred, but only if they had a substantial physical facility there.

If this provision becomes law, it would radically change where many patent disputes are likely to take place and stop certain district courts from continuing in their de facto role as patent litigation hubs.

Still, some question if the Senate has crafted legislation that actually accomplishes its intended purpose.

“People shouldn't be able to forum shop,” said Donald Ware, chairman of the intellectual property group at Foley Hoag LLP. “But they made it impossible

for a completely legitimate plaintiff to bring suit in their own state, so that's sort of peculiar.”

Others wonder whether blocking many plaintiffs from filing patent suits close to home will significantly change the cost structure of patent litigation.

“That's a striking departure from our jurisprudence,” Sheasby said. “Not allowing the patent holder to sue in their home district weights the cost on the patent holder.”

Noting the potential for litigation costs for certain plaintiffs to rise under this provision, the Senate bill does exempt universities, nonprofit organizations and small inventors from this rule. They may file patent cases in the districts where they reside.

Section 8 also proposes to allow a party to pursue what's known as an “interlocutory appeal” of a patent claim construction order to the Court of Appeals for the Federal Circuit. A district court judge would certify a claim construction order for review and, once the matter was certified by a district court judge, the federal circuit would decide the appeal, according to the legislation.

Supporters of the provision say that it has the potential to clear up tricky claim construction questions early in the litigation process. But some worry that the provision potentially opens the door to a flood of appeals.

“It could cause an automatic appeal in every case,” said Steve Rizzi partner at Thelen Reid Brown Raysman & Steiner LLP. “Is that really the right way to deal with this? The backlog would be tremendous unless you add a lot more judges.”

Over the past week, Senate leaders, including Senate Majority Leader Harry Reid, have signaled their intention to make patent reform a priority, but questions linger about what the true effects of the Senate bill would be and whether the Senate truly has the political will to make these tough and hotly contested decisions this year.

“There's no doubt this is going to increase the costs of patent litigation for patent owners,” Sheasby said. “And maybe that's OK. It's a policy decision for the Senate to make. The costs have to be placed somewhere.”