

The Rapidly Changing Landscape of Patent Rules, Case Law and Patent Laws

How to Deal with an Impending Train Wreck

October 26, 2007
Brad Pedersen, Esq.
pedersen@ptslaw.com



© PTSC 2007, some rights reserved - www.ptslaw.com

RIGHT TO USE - This presentation may be freely distributed, used and/or modified, so long as appropriate attribution is made that includes retention of the PTSC logo in connection with any materials from this presentation.

DISCLAIMER - This presentation and any information contained herein is intended for informational purposes only and should not be construed as legal advice. Seek competent legal counsel for advice on any legal matter.

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

The Train Wreck: New Patent Rules, New Case Law and New Patent Laws

- **The Patent Rule Changes**
 - Claim Limits – 5/25 limits on number of claims, otherwise expensive search report
 - Continuation Limits – only 2 continuations as a matter of right
 - Co-Pending Case Limits – prosecute cases one at a time, instead of in parallel
- **The Patent Case Law Changes**
 - Supreme Court – *eBay* (injunctions), *MedImmune* (DJ's), *KSR* (obviousness)
 - Federal Circuit litigation – *Seagate* (willfulness), *DSU Medical* (inducement), *BMC* (joint infringement),
 - Federal Circuit prosecution – *Comiskey* (mental steps), *Liebel* (enablement), *McKesson* (inequitable conduct)
- **The Pending Patent Law Changes**
 - Patent Reform Act of 2007 – passed House, pending in the Senate
 - Change from First-to-Invent to First-to-File
 - Addition of Post-Grant Opposition
 - Changes in Litigation – Apportioned Damages, Venue, Delayed Pleadings
 - Changes in Prosecution - Search Reports required for almost all applications

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

The Patent Rule Changes: Limits on Claims, Continuations and Co-pending Cases

■ Claim limits

- Limit of no more than 5 independent and 25 total claims per application
- Otherwise, expensive search and Examination Support Document (ESD) is required
- If large entity, ESD must include reverse claim mapping
- Applies to both new and pending applications without an Office Action by 11/1/07

■ Continuation limits

- Each patent family limited to 2 continuations and 1 RCE (continuing exam) - 2+1
- Older patent families may get 1 "extra" continuation above 2+1 in some situations
- Divisional applications filed in response to a PTO restriction reset continuation limits
- Continuation limits apply only to applications filed after 11/1/07
- 2+1 limits apply forwards as well as backward - i.e. no parent can have more than 2 child cases and no child can have more than 2 claims to parent cases

■ Co-pending Case limits

- Must identify all "related" co-pending cases with common assignee, common inventor
- Must explain/overcome if there are multiple cases with Patentably Indistinct claims
- Identify/explain due - 2/1/08 for pending cases, filing +4 months for new cases

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

The Impact of the Rule Changes: All Pending Cases Must be Reviewed

■ Claim limits

- Multiple dependent claims count against limit based on number of dependencies
- Dependent claims that cross statutory classes counted as independents
- Withdrawn claims don't count against limits unless later rejoined

■ Continuation limits

- Families with 2+ continuing applications or priority claims (2+ cases) must be reviewed
- Important cases that may need 2+ continuing applications need to be identified
- All potential unclaimed subject matter or potential divisional cases should be reviewed by 11/1/07

■ Co-pending Case limits

- Identify all "related cases" - commonly owned cases with one common inventor and same priority dates of any priority dates in other cases, including provisionals
- Explain/overcome rebuttable presumption that claims in related cases with common priority dates and overlapping subject matter are Patentably Indistinct
- PTO may require cancellation of any Patentably Indistinct claims
- Cases with Patentably Indistinct claims may be added together for 5/25 claim limits!

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

A sampling of the New Rules You really don't want to have to do an ESD search!

Text Search Example

Database Searches:

1) Database Service: USPTO EAST

Files Searched:
 US Patent Document Database: US-PG/PUB, USPAT, USOCR
 Foreign Patent Document Database: EPO, JPO, DERWENT
 IBM Technical Disclosure Bulletin database: IBM_TDB

Search Logic:

1.1 (coupon or promotion or ad or advert¹⁹ or banner or discount or incentive or offer²⁰) near/19 (id or ident¹⁹ or code or unique or serial ad number)

1.2 (coupon or promotion or ad or advert¹⁹ or banner or discount or incentive or offer²⁰) with (select¹⁹ or pick¹⁹ or check¹⁹ or choose¹⁹ or decide¹⁹ or decision or choice) ...

1.1.1 (coupon or promotion or ad or advert¹⁹ or banner or discount or incentive or offer²⁰) same (redem¹⁹ or redemption) same (history¹⁹ or previous¹⁹ or before or already or prior or present¹⁹ or past or earlier) same (user or customer or consumer or shopper or buyer or purchaser)

Date Conducted: August 8, 2006.

2) Database Service: Dialog

Files Searched:
 (New Patent Literature) ABCTIFORMS (Bell & Howell Information and Learning), Business & Industry²⁸ (Responsive Database Services, Inc.), Business Week (The McGraw-Hill Companies Publications Online), Business Wire (Business Wire), Computer Database²⁹ (The Gale Group), ... USA Today, Washington Post Online.

Search Logic:

5: (coupon or promotion or ad or advert¹⁹ or banner or discount or incentive or offer²⁰) (19a) (id or ident¹⁹ or code or unique or serial number) ...

5.1: (coupon or promotion or ad or advert¹⁹ or banner or discount or incentive or offer²⁰) (19b) (redem¹⁹ or redemption) (19c) (history¹⁹ or previous¹⁹ or before or already or prior or present¹⁹ or past or earlier) (19d) (user or customer or consumer or shopper or buyer or purchaser)

Date Conducted: August 8, 2006.

This is an example of from page 8 of the ESD Guidelines on the PTO Website showing a text search example

The key appears to be that each and every claimed element or limitation (both independent and dependent claims) must be reflected in the keyword text search.

A sampling of the New Rules And you really, really don't want to do a reverse claim map!

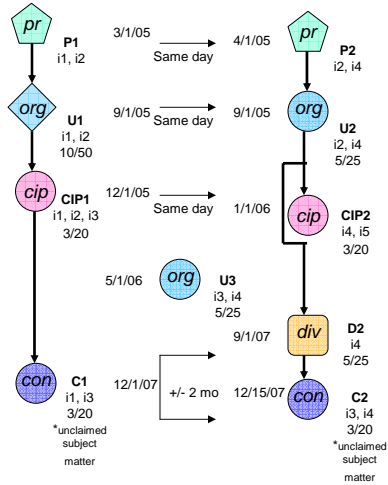
Example of an Identification of Limitations Disclosed by a Reference

Claim 1	Purcell et al. (US 20040193487)
A method of delivering a secure promotion to a user comprising:	Abstract; figure 6
a) collecting a plurality of offers;	Implied by offers presented to user in figure 6
b) assigning a unique identifier to each of the offers from the plurality of offers;	Abstract; *0018; *0049
c) encoding each of the unique identifiers;	Abstract; *0018; *0049
d) providing a retailer with the plurality of coupons;	Figure 4 box 4; *0043 (retailer provided with coupons)
e) identifying the user;	Figure 6 box 602 (user logs onto retailer site)
f) providing the user with a plurality of coupons for selection;	Figure 6 box 606 (user selects offers)
g) determining which of the provided coupons the user has selected;	Figure 6 boxes 614, 620, 626 (that the user prints/receives coupons requires determining which coupons were selected)
h) informing the retailer about the selected coupons by the user;	Figure 6 boxes 616-618 (if the user chooses electronic delivery the selections are sent to the retailer)
i) decoding the identifiers on the selected coupons and validating the selected coupons using the decoded identifiers;	*0049; *0050
j) redeeming the validated coupons; and	Figure 4 boxes 406-408; *0043; *0050
k) providing a clearinghouse with the redemption information.	*0043 (the offers are totaled and reported to a service system, the service system can be considered a clearinghouse).

This is an example of from page 12 of the ESD Guidelines on the PTO Website showing a reverse claim map for 1 reference and 1 claim.

To comply with the requirements of *Rule 265(a)(3)*, multiple this by the number of relevant references times the total number of claims in the application.

A sampling of the New Rules Rule 78(f)(1): The Identification Requirement



Required to ID for CIP1

- U1, C1, U2, C2
- Not CIP2 and D2 - no common inventor (both would meet same date test due to U2)
- Not U3 – not same date
- *But* CIP2, D2 and even U3 should be included if related subject matter

Required to ID for C1

- U1, CIP1, C2 (C2 uses +/- 2 mo range)
- Not U2, CIP2 and D2 - no common inventor
- Not U3 – not same date
- *But* U2, CIP2, D2 and even U3 should be included if related subject matter

Best Practice

- ID all nonprovisional applications with common inventor and include all family members related to common inventor applications

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

The Reasons for the Rule Changes: PTO argues they are being overwhelmed

Claim limits

- Small number of cases purportedly taking up disproportion share of PTO resources
- PTO wants applicants to share the burden in those cases by submitting an ESD
- Small entities get exception from hardest part of ESD - the reverse claim mapping

Continuation limits

- PTO asserts too many "rework" applications to same invention (29% in 2006)
- Limit of 2 continuations of right may permit up to 15/75 claims for any given invention
- Petitions can be filed to request more than 2 continuations

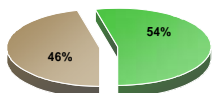
Co-pending Case limits

- PTO wants applicants to prosecute continuation applications serially, not in parallel
- Applicants better able to untangle double patenting in "rat's nest" related cases
- Serial prosecution decreases likelihood of differing results in different parallel cases
- Co-pending case limits probably will do the most to decrease application numbers

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

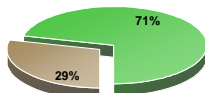
The Damage from the Rule Changes: Up to half of pending cases may need rework

2002-06 Medical Device Appls
(class 607 or 623)



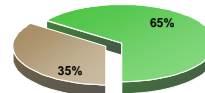
More than 25 claims 25 claims or less

2002-06 Published Appls
(all classes)



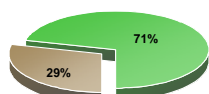
More than 25 claims 25 claims or less

2002-06 Litigated Patents



More than 25 claims 25 claims or less

2006 Patent Applications



Continuing Applications New Applications

Because claims in related applications that are "Patentably Indistinct" may be counted together for 5/25 limits and because all of the 2+ cases need to be reviewed, the number of cases in need of rework in order to avoid an ESD or petition for extra continuations under the New Rules will be greater than 30% and may be closer to half of all pending cases.

PATTERSON THUENTE
SKAAR CHRISTENSEN IP

The Damage from the Rule Changes: Issued Patents

- **Issued Patents**
 - Not affected unless there is a reissue or re-examination application filed
- **Reissue Applications**
 - Affects only those filed after 11/1/07
 - Any attempt to amend claims will bring reissue application within scope of new rules on 5/25 claim limits and ESD requirements
- **Re-examination Applications**
 - Re-exams filed after 11/1/07 not be affected by 5/25 claim limits and ESDs
 - Only requirements for Co-pending cases is requirements to identify commonly owned cases
- **Requests for Continuing Examination (RCE)**
 - For any pending cases where an RCE has already been filed, review to see whether any additional RCE's may be needed and file by 11/1/07
- **Cases with Restriction Requirements**
 - Change in the definition of what constitutes a "divisional" favor filing cases based on already issued restrictions under the current rules, instead of the New Rules

PATTERSON THUENTE
SKAAR CHRISTENSEN IP

The Damage: Pending Applications

■ Cases Already Being Examined

- If an application has received a First Action On the Merits (FAOM) by 11/1/07:
 - 5/25 Claim limits and ESD requirements will not apply
 - Option to Suggest Restriction Requirement (SRR) not available
- Obligations for Co-pending cases *will* apply and are required by 2/1/08
 - Identify “related cases” - **common assignee and 1 common inventor**
 - No need to rebut any presumption of Patentably Indistinct
- Obligations to identify priority of any current CIPs due by 2/1/08*
- *Date changed from 11/1/07 to 2/1/08 by PTO update issued 10/10/07

■ Cases Yet to be Examined

- If an application has *not* received a FAOM by 11/1/07:
 - 5/25 Claim limits and ESD requirements will apply
 - Option for SRR is available until a restriction requirement is issued
- Obligations for Co-pending cases apply and are required by 2/1/08
 - Identify “related cases” with common assignee and 1 common inventor
 - Must rebut/overcome Patentably Indistinct presumption for “related cases”
that also have common priority date(s) and overlapping subject matter
- Obligations to identify priority of current CIPs due by 2/1/08*

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

The Damage: Newly Filed Applications

■ Continuing Cases Filed After 11/1/07

- Certain cases get one “extra” continuation as a matter of right if
 - Case claims priority only to applications filed before 8/21/07; *and*
 - There are *no other* co-pending **non-divisional*** cases filed after 8/21/07 that also claim priority to any of the same parent cases in the chain of priority
 - **Permits one last gasp “extra” application for old patent families that would not otherwise comply with forward and backward limits of Rule 78(d)(1)**
 - *Changed to non-divisionals by PTO update issued 10/10/07
- Will require creative claiming strategy
 - Present claims that are Patentably Distinct over any related cases; *and*
 - File a SRR to get a restriction requirement; *then*
 - If Examiner issues restriction, a continuing application to the non-elected claims will qualify as a divisional case and continuation limits are reset and claims will not be subject to Patentably Indistinct test

■ New Cases Filed After 11/1/07

- Will require more searching and strategizing to deal with claim limits and ESDs
- Will require more planning to deal with co-pending related cases and divisionals

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

“Owned by the Same Person” Dealing with Acquisitions and JRAs

■ Joint Research Agreements (JRA)

- JRA Requirements - 35 USC 103(c)(2)
 - Written agreement must be in place prior to invention
 - Parties to JRA must be identified in patent application
- JRAs under the New Rules - Rule 78(h)
 - Both parties will be treated as the “common assignee”
 - Rule 78 will apply to all pending applications and patents of *both* parties

■ Acquisition of Pending Applications

- Be careful when acquiring pending applications
 - Evaluate 103(c) impact on removing earlier cases as prior art - MPEP 706.02(l)
 - Evaluate impact of Rule 78(f) on both earlier and later cases
- May want to impose springing obligation to identify (by inventor, serial no, filing date)
 - Any cases filed naming any inventor who is also inventor on assigned case
 - May need to identify back any additional cases filed after acquisition and claiming priority to cases that were acquired

The Legal Challenge: GlaxoSmithKline files for Preliminary Injunction

■ Case filed 10/9/07

- Alleges that PTO acted beyond its rule making authority in adopting the rules
- GSK has more than one hundred continuing or RCE cases affected by the rules
- Asks for preliminary injunction preventing PTO from enacting rules on 11/1/07
 - Sets summary judgment briefing and hearing schedule to be completed by end of year assuming preliminary injunction is granted

■ Preliminary Injunction Hearing Moved to 10/31/07

- Originally set for 10/26/07
- Moved to 10/31/07 on request by PTO
- GSK opposed moving hearing in order to permit time for emergency appeal to Federal Circuit if Preliminary Injunction Motion was denied
- AIPLA has filed Amicus brief
- IBM declaration that it expects costs > \$10M for 25,000 pending cases
- Case has been transferred to Judge Cacheris (ED Va)
 - Senior status judge with a BS undergraduate degree
- Unfortunately, timing of hearing is too late to avoid the need to take actions that otherwise should be done by 11/1/07

Waiting for the Other Shoe to Drop: The IDS Rules

■ IDS Rule Package currently in front of OMB

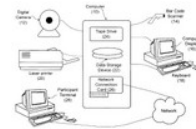
- Rules change attempts to get most relevant prior art into cases earlier
 - Limit citations of material references to no more than 25 references
 - Impose duty on attorneys to personally review every cited reference
 - Eliminate new IDS as reasons for RCE and provide alternate approach
 - Change procedures for 3rd party submissions
- Decision to approve, deny or extend time for OMB review due by Monday
- Two separate oppositions to IDS rules have been filed
 - First opposition by Glaxo et al arguing that economic impact of complying with IDS Rules would be > \$2B
 - Second opposition by anonymous group represented by former OMB director arguing that economic impact would be > \$7B
- Possibility of still submitting “extra” references that could be put into file by an additional 1449 that would not be reviewed by Examiner
 - Uncertain whether obligation for personal review of any “extra” references
- If IDS Rules approved by OMB
 - Published Around 12/1/2008
 - Likely effective on 2/1/2008

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

The New Case Law: Supreme Court Decisions

■ *eBay v. MercExchange* (2006)

- Patent for online auction found valid and infringed
 - eBay appealed injunction imposed by Federal Circuit
 - Supreme Court overruled Federal Circuit
- Injunctions are no longer automatic
 - District Court must still apply each element of equitable test
 - Equities more likely to be present if patent owner is a competitor
- If no permanent injunction is granted, patent owner
 - May get compulsory license royalty rate for future damages
 - Unlikely to get treble damages



■ *MedImmune v. Genentech* (2007)

- Licensee filed Declaratory Judgment (DJ) challenging patent validity
 - Federal Circuit dismissed because Licensee was still paying royalties
 - Supreme Court overruled Federal Circuit
- No requirement to breach patent license in order to challenge validity
- Contract language in license preventing challenge to validity may preempt this

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

The New Case Law: Supreme Court Decisions



■ **KSR v Teleflex (2007)**

- Patent for electronic speed control for adjustable gas pedal
 - District Court found patent obvious over 4 references
 - Federal Circuit overruled District Court holding there was no teaching-suggestion-motivation to make combination of references obvious (TSM test)
 - Supreme Court overruled Federal Circuit
- TSM Test cannot be strictly applied as the only test for obviousness
 - Obviousness test must be applied with common sense
 - Determine whether patentable innovations are of a quality and kind above the general wave of ordinary developments in the field
- Reasons for unobviousness of a combination that were favored:
 - Unpredictable results
 - Synergy of the combination
 - Teaching away
 - Inoperability of the combination
- Reasons for unobviousness of a combination that were disfavored:
 - Strict TSM
 - Non-analogous art
 - Obvious to try
 - Too many references

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

KSR: The PTO Spin on Obviousness

■ **PTO issued new Guidelines in view of KSR on 10/10/07**

The rationales for supporting an obviousness rejection under the new guidelines include:

- (A) Combining prior art elements according to known methods to yield predictable results;
- (B) Simple substitution of one known element for another to obtain predictable results;
- (C) Use of known technique to improve similar devices (methods, or products) in the same way;
- (D) Applying a known technique to a known device (method, or product) ready for improvement to yield predictable results;
- (E) “Obvious to try”—choosing from a finite number of identified, predictable solutions, with a reasonable expectation of success;
- (F) Known work in one field of endeavor may prompt variations of it for use in either the same field or a different one based on design incentives or other market forces if the variations would have been predictable to one of ordinary skill in the art;
- (G) Some teaching, suggestion, or motivation in the prior art that would have led one of ordinary skill to modify the prior art reference or to combine prior art reference teachings to arrive at the claimed invention.

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

The New Case Law: Federal Circuit Litigation Decisions

- ***In re Seagate* (2007)**
 - Federal Circuit overturns 24 years of affirmative duty to investigate patents
 - New standard for willfulness is reckless disregard of another's patent
 - Objective standard of reckless disregard may be equated to whether patent owner would prevail in seeking a preliminary injunction
 - Federal Circuit also limited scope of waiver of attorney-client privilege
 - Waiving privilege for opinion counsel does not waive for litigation counsel
 - Opinions obtained after trial starts held to be of little value
- ***DSU Medical v JMS* (2007)**
 - Federal Circuit adds knowledge requirement in cases of induced infringement
 - Patent owner must prove that infringer's actions induced infringing acts *and* that infringer knew or should have known actions would induce infringements
- ***BMC Resources v Paymentech* (2007)**
 - Federal Circuit denies infringement based on theory of joint infringement
 - Method claim had steps performed by client and also by server
 - If two unaffiliated parties infringe different parts of claim → no infringement

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

The New Case Law: Federal Circuit Prosecution Decisions

- ***In re Comiskey* (2007)**
 - Federal Circuit reinstates the mental steps exemption for patentable subject matter
 - Method claims to legal arbitration found not patentable subject matter
 - System claims that includes computer system are patentable subject matter
 - But system claims likely invalid as computerizing known mental process will not give rise to protectable innovation that is beyond ordinary innovation
- ***Liebel v Medrad* (2007)**
 - Federal Circuit gives teeth to enablement in cases where claims are stretched
 - Patent directed to fluid injector that covered both jacket and jacket-less
 - District Court reversed when jacket limitation imported into broad claim
 - District Court then affirmed that broad claim did not enable both variations
 - Full scope of generic claims must be enabled - see also *ATI v BMW*
- ***In re McKesson* (2007)**
 - Federal Circuit finds inequitable conduct where patent attorney did not submit reference in all related cases, and also did not submit Office Actions and Notice of Allowance in related cases

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

The Pending Patent Reform Law: More Changes on the Horizon?

- **Current Status of Patent Reform Act of 2007**
 - Passed House in September (HR1908)
 - Pending in Senate with vote possible by November (S 1145)
 - White House on record as opposed to some, but not all, provisions
- **Change from First-to-Invent to First-to-File**
 - Transition gated by other countries adopting inventor grace period
- **Addition of Post-Grant Opposition**
 - Difference between only 1 window (House) vs. 2 windows (Senate)
- **Apportioned Damages**
 - High tech lobbying for limit on damages based on contribution of invention
 - Biotech and pharma opposed to apportioned damages
- **Venue Limits**
 - Limits where defendants can be sued
 - No manufacturing of venue

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

The Pending Patent Reform Law: More Changes on the Horizon?

- **Delayed Pleading**
 - Willfulness - cannot be pled until after finding of infringement of valid patent
 - Inequitable conduct - cannot be pled until after finding of invalidity
- **Search Reports**
 - May be required for almost all applications
 - Only micro-entities (individuals named on less than 5 applications) exempt
- **Inequitable Conduct**
 - Proof of intent must be separate from proof of materiality of references
 - House bill would actually return law to affirmative duty to investigate
- **Status in Senate Uncertain**
 - Sen. Leahy pushing hard for passage
 - Key will be whether opposition can assemble 40 votes to threaten filibuster
- **Language for Committee Compromise Already Proposed**
 - 21st Century Patent Coalition has drafted compromise language

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP

The Salvage Operation: Only \$uperman Can Save the Day



The changes in patent rules, patent case law and patent law have swung the momentum from strong patent protection easily obtained to weaker patent protection more difficult to obtain and to enforce.

Superman Cartoon Clip from "Billion Dollar Limited"
original copyright 1943 by Paramount Pictures, now
in public domain and used under Creative Commons
Copyright License

The bottom line is that average costs for patent applications, both preparation and prosecution, may increase by 2X or more.

PATTERSON | THUENTE
SKAAR | CHRISTENSEN | IP