

Patent Reform Bill Could Shift More Disputes To USPTO

By Erin Coe

Law360, San Diego (September 12, 2011, 11:37 PM ET) -- The patent reform bill, slated to be signed into law as early as this week, is likely to spur more patent challenges before the U.S. Patent and Trademark Office while at the same time driving down multidefendant litigation and other types of lawsuits, attorneys say.

The U.S. Senate last week approved the version of the Leahy-Smith America Invents Act passed by the U.S. House of Representatives in June. While the bill calls for a series of changes at the USPTO and on the prosecution side, it also has the potential to have a major impact on where patent disputes play out and could make the USPTO a more attractive forum, attorneys say.

The bill allows for a broader procedure for parties to oppose any patent in any technology area at the USPTO. The significance of the new post-grant review proceeding, which must occur within nine months of a patent's grant, is that many patents may be attacked before any litigation ever takes place, according to Steve Maebius, chair of Foley & Lardner LLP's intellectual property department.

"The USPTO is likely to become a new battleground for validity disputes, which could ultimately reduce the frequency of some patent litigation," he said.

The provision gives patent challengers more opportunities to nullify issued patents through post-grant reviews, Sterne Kessler Goldstein & Fox director Eldora Ellison says. While parties will still be able to contest a patent's validity based on prior art patents and publications, the bill also allows parties to attack a patent on any ground for invalidity, including prior public use, lack of enablement, lack of written description and lack of utility, she says.

"If someone wants to challenge a patent, they will have many more options at the USPTO than ever before, making it an increasingly alternative forum to litigation for challenging a patent," Ellison said.

One important difference that could make disputes before the USPTO a more viable option than litigation is that parties do not need to have standing before the agency like they do in district court, according to Ellison. If parties don't want to wait for a case or controversy to exist in order to file a declaratory judgment suit, they can challenge a patent using the post-grant procedure before the USPTO, she says.

But the USPTO will only be a bigger draw for patent challenges if it is able to decide disputes promptly, Ellison says. The patent reform bill directs the USPTO to decide post-grant proceedings within a year, or if there is good cause, within 18 months.

“It remains to be seen how judges at the patent office handle these proceedings,” she said. “The devil is in the details on how viable and useful these proceedings will be.”

Before parties opt to initiate an administrative proceeding, they will also be looking at whether they could later be barred from making an argument in litigation based on their claims from a post-grant or inter partes review, according to Ellison.

“The administrative procedures in theory should be faster than current inter partes re-examination is, so estoppel would likely take effect sooner,” she said. “If a party is worried about litigation arising after any estoppels may take effect, and if it doesn’t think it has a strong case, it may be hesitant to attack patent claims [before the USPTO] and then be precluded from using such arguments in a district court.”

Even if parties do find the USPTO to be a more attractive forum than the courtroom, the switch won't happen overnight, according to Ilan Barzilay of Seyfarth Shaw LLP.

“Post-grant review proceedings may be appealing, but I would not be surprised if it takes several years for those to come into vogue,” he said. “The same was true for inter partes re-exams. It took practitioners and clients time to warm up to the idea.”

In addition to moving certain disputes to the USPTO, the patent reform bill also is likely to curb multidefendant suits brought by nonpracticing entities and signal the end for much of the litigation over false patent marking, attorneys say.

One provision requires a plaintiff seeking to join multiple parties in patent litigation to make sure there is some connection between or among the defendants, such as the defendants are jointly or severally liable or a group of defendants are infringing with the same products, according to Craig Smith, a partner of Lando & Anastasi LLP.

“This is going to end the era of nonpracticing entities filing one suit against multiple defendants that don’t have any relation to one another,” he said.

Nonpracticing entities have rounded up dozens of defendants in one patent suit in order to save on costs, but the bill would force them to file separate suits against unrelated defendants and this would mean they would not have the luxury of paying one filing fee and going before one judge in one suit with a single schedule, attorneys say.

“If a plaintiff must file multiple suits, the big strategic advantage to having all defendants in one piece of litigation will be lost and will curb litigation by nonpracticing entities,” said Sharon Barner, a Foley & Lardner partner and the former deputy director at the USPTO.

But if the bill effectively cuts down on multidefendant litigation, it could lead to an increase in the number of suits by nonpracticing entities if they can’t combine all the defendants they want in one suit, Smith says.

“There could be an uptick in the number of cases filed, but it will be interesting to see how the courts may deal with all of these suits, especially if they are filed in the same jurisdiction,” he said. “Courts may try to consolidate the actions for the purposes of discovery or claim construction in the interest of judicial economy.”

But a surge in recent multidefendant litigation activity suggests that plaintiffs may be concerned that they will not be in as good of a position once the law takes effect, Smith said.

From Sept. 7 to Sept. 9, plaintiffs including GTZM Technology Ventures, E-Micro Corp. and ICH Intellectual Capital Holdings filed 31 new multidefendant patent suits, and 16 of those suits involved 10 or more defendants, according to Smith.

The patent reform bill also aims to restrict the filing of suits alleging a company has falsely marked its products with an expired or inapplicable patent to the government or parties that have suffered competitive harm. That provision is likely to extinguish hundreds of cases brought by law firms and companies set up by law firms seeking to recover damages, Smith says.

“As a result of the new act, the change will eliminate 98 percent of these false marking cases,” he said. “You won’t be able to file suit if the only allegation is that an expired patent is on a product. Instead, the plaintiff must allege competitive injury, and I don’t think most or almost all of the false marking cases will be able to survive the new standard.”

The bill also makes it easier for banks and financial institutions to invalidate business method patents in an administrative proceeding before the USPTO because the evidentiary standard for invalidating these patents in such a proceeding is lower than that applied in a federal court proceeding, Maebius says.

“This provision will apply to already granted business method patents,” he said. “Thus, it could be applied in a suit pending today, if the suit remains unsettled a year from the date of enactment, when this provision goes into effect.”

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