

CLIENT ALERT

FEDERAL CIRCUIT DECISION ON CONTROVERSIAL PTO RULES

March 25, 2009

Executive Summary

On Friday March 20, 2009, the Court of Appeals for the Federal Circuit (Federal Circuit) issued a long-awaited decision in the litigation concerning a series of controversial rules the U.S. Patent and Trademark Office (PTO) is trying to impose to restrict what inventors can do when applying for patents. The Federal Circuit ruled the proposed rule sharply limiting continuation application (continuations) practice impermissibly conflicted with existing law regarding continuations. Otherwise, however, two of the three judges sided with the PTO. The Federal Circuit found that the PTO had the necessary “rulemaking” power and also concluded that the rules *other* than the restriction on continuations did not conflict with certain existing laws.

In the short term, PTO procedures will remain the same. The Federal Circuit sent the case back to a lower court for further analysis. Down the road, however, the “other” rules may be implemented. One would limit “requests for continued examination.” Another would impose onerous requirements for patent applications with a large number of claims. Without a parallel rule limiting continuations, these changes would probably increase costs, but not prevent applicants from adequately protecting their inventions. In light of the Federal Circuit’s decision, however, the PTO may eventually be able to implement a rule imposing at least modest restrictions on continuations as well.

Background

In the fall of 2007, the PTO was set to implement several new regulations imposing restrictions on patent applications. (For a detailed analysis of the proposed regulations, go to http://www.wolfgreenfield.com/files/new_rules_alert_and_detailed_memo.pdf for our client alert dated October 16, 2007.) Three of the proposed rules attracted particular attention:

1. Limiting Continuation Applications. Among other things, continuations allow patent applications to get the benefit of earlier filings, giving inventors further opportunities to refine patent claims, overcome PTO rejections, and/or claim additional concepts described in the application. The new PTO rule would have made it very

difficult to file more than two continuations based on a single application. Many argued these rules would unfairly interfere with the ability to get meaningful patent protection. Others endorsed the PTO's new rule as a tool for cracking down on supposed "abusive" continuation practice, in which applicants extend prosecution for years and tailor claims to target particular products.

2. Limiting Requests for Continued Examination. Requests for Continued Examination ("RCEs") are similar to continuations in certain ways. They offer applicants a way to extend prosecution before an examiner (e.g., offering additional arguments or amendments.) As with continuations, RCEs have both defenders and critics. The new PTO rule would presumptively bar more than one RCE per *family* of patents.

3. Discouraging Applications with Large Number of Claims. To expedite examination, the PTO was set to adopt rules to impose stringent burdens on applications with more than five independent claims or 25 total claims. Specifically, applicants would need to conduct a prior art search and submit an "examination support document" with various information, including an identification of the most relevant prior art and an explanation why the claims are nevertheless patentable. Many complained these documents would take substantial time and money to prepare. Others worried the documents could trigger inequitable conduct claims, or otherwise be exploited by accused infringers during litigation.

Shortly before the new rules were to take effect, several parties filed lawsuits and claimed the changes were invalid. The district court granted a preliminary injunction barring the PTO from implementing the new rules. (To view our client alert on the district court's decision, go to <http://www.wolfgreenfield.com/newsstand/client-alerts-119>.) Later, the court granted the challengers' motion for summary judgment and ruled that the rules were invalid because they conflicted with existing law and also went beyond the scope of the PTO's authority.

The PTO appealed this decision to the Federal Circuit, which handles all patent appeals.

Federal Circuit's Decision

On March 20, 2009, the Federal Circuit issued its decision in *Tafas v. Doll*, which vacated portions of the district court's ruling and therefore breathed new life into some (but not all) of the new rules.

Two of the three judges sitting on the panel ruled that the PTO had the power to implement the rules assuming they met all of the other necessary requirements.

The judges in the majority also decided that the rule limiting RCEs did not violate several patent law provisions the challengers (and the district court) thought it did.

Those two judges also reached the same conclusion regarding the rule imposing additional requirements (i.e., the "examination support document") for applications with more than 25 total claims or five independent claims.

By contrast, the entire panel agreed with the district court about the rule limiting continuations, finding it impermissible because the changed rule would have conflicted with existing patent laws passed by Congress.

Now What?

The Federal Circuit's decision means the remaining rules (i.e., those limiting RCEs and requiring "examination support document" when filing applications with more than 25 claims) *may* be implemented sometime down the road. It does *not* clear the way for the PTO to implement those rules immediately.

In particular, the Federal Circuit did not resolve all of the challenges to the remaining rules. Its decision simply rejected the specific rationales the district court had used when finding the planned changes were impermissible.

The case has been remanded to the district court, which will have various other issues to consider. For example, the court must decide if the remaining rules are unlawfully vague.

Possibility of Further Appellate Review

There is some chance of further appellate review before the case goes back to district court. First, the Federal Circuit judges could vote to reconsider the decision "en banc." Such review (by all twelve active Federal Circuit judges) is uncommon, but might be a reasonable possibility given the high stakes of the case and the fact the three members of the panel viewed the issues differently. One dissented from the decision and wanted to affirm the district court's decision in full (i.e., rejecting *all* the rules), and the two other members of the panel could not agree entirely in their reasoning.

Separately, the Supreme Court might agree to review the Federal Circuit's decision. This is quite unusual, but cannot be ruled out. The Supreme Court has recently taken an interest in patent law, and *Tafas* also raises unsettled questions of administrative law.

Decision's Effect on Current Practice

The district court's injunction will probably remain in effect and bar the PTO from implementing the remaining rules so long as the *Tafas* litigation is ongoing. When issuing the original injunction, the district court relied in part on the challengers' vagueness argument, which the Federal Circuit's decision expressly did *not* address. The PTO therefore would face an uphill battle if it tried to convince the court to lift the injunction and allow the remaining rules to take effect while the challenge proceeds.

If the injunction *were* lifted in the future, the PTO would announce a new effective date for the remaining rules. The changes would only apply to new applications filed after that announced date. In short, the rules will not change overnight following a court decision.

Even if the RCE limitation and "examination support document" rules do eventually take effect, their practical impact may be limited given the Federal Circuit rejected the proposed rule limiting continuation practice. So long as patent applicants can file as many

continuations as they want, there will normally be ways around restrictions on RCEs. Applicants also can use continuations to spread claims among different applications and stay under the thresholds that would trigger the need for an examination support document. These strategies may increase patent prosecution expenses, however.

Notably, moreover, the Federal Circuit's decision may leave room for the PTO to limit continuations, but less aggressively than the rejected rule would have restricted them. Given this possibility as well as the recent change in administrations, it is possible the PTO will return to the drawing board and rework the entire package of rules.

For Further Information

To read the Federal Circuit's decision, go to <http://www.cafc.uscourts.gov/opinions/08-1352.pdf>.

We will be continuing to follow the *Tafas* litigation and will provide additional alerts if/when there are significant further developments. In the meantime, please contact your Wolf Greenfield attorney regarding any questions you may have concerning how this case and the proposed PTO rules might affect your IP strategies.