Recent Developments in the Patentability of Software and Business Methods

(Douglas F. Stewart, Dorsey & Whitney LLP, Seattle)

Douglas Stewart: Thank you very much. I believe some of you may have been here last year when I talked about this topic, and last year, we had hoped that there would be some sort of change in the law, and I believe that what we’ve gotten here is a bit of a disappointment from the Supreme Court.

So, we’ll start today by talking about Bilski and the Supreme Court’s decision and then afterwards we can talk about the en banc case that is pending before the Federal Circuit on inequitable conduct and what possible impact that might have on patent litigation and prosecution in the United States.

The Bilski case is directed to the statute 35 U.S.C. §101, which describes the subject matter for which you can obtain a patent in the United States, and Bilski in particular is focused on the word ‘process,’ and trying to interpret what the art process means when considered in light of software patents and business method patents.

As background, it is important to understand that the US patent system is an inclusive patent system. The statute is not written in a way that excludes any particular category. Some countries have patent laws that exclude specific things, but the US law is drafted broadly with an inclusive nature.

As is the case with every statute in the United States, it really doesn’t mean anything until the courts have tried to determine what the meaning should be, and in this case 35 U.S.C. was interpreted to exclude three things, abstract ideas, laws of nature, and natural phenomena.

So these ideas about things that are excluded have evolved from the Supreme Court cases, from the Supreme Court attempting to interpret various fact patterns under the statute.

So moving to the idea of software patents, the initial view on software patents in the US was negative, and specifically, the commission on the patent system in the ‘60s indicated that software patent should not be issued.

And while the Patent Office did initially treat software patents as something that could not be granted, the courts have tried to develop the law to keep up with technology.

So that has taken place in two courts, the Supreme Court and the Federal Circuit, and after we talk
about Bilski, we are going to talk a little bit about the differences and why the Federal Circuit is very interested in helping the district courts solve these problems, whereas the Supreme Court is interested in more general concepts.

So moving to the sequence of Supreme Court decisions, we will go through a number of Supreme Court decisions that illustrate the evolution of the court’s approach to software and eventually business method patents, starting with the Benson case, which was directed to a conversion process for binary numbers from a binary decimal to a pure binary number.

And we need to keep in mind that this was in 1972 before the widespread use of computers and the familiarity that ordinary people have with computers that we have today. But the Supreme Court in this case rejected the applicant’s claims and said that they were basically directed to an algorithm and therefore were an abstract idea that could not be patented.

So, the initial view of the Supreme Court was that the abstract idea which was excluded from 101, included things that might fall under the title of software. But, they specifically said that they were not holding that you could never get a software patent; It’s just that in this case the circumstances were not appropriate.

Six years later, the Supreme Court dealt with this issue again and in the Parker case or Flook, as it’s referred to – in this case, the patent applicant had taken a prior art process and updated it by including a formula, and in this case they tried to argue that the inclusion of additional steps beyond the mere execution of the formula were sufficient to render it patentable.

So for this case the Supreme Court’s argument was that you could not simply add post-solution activity or additional steps to render unpatentable subject matter patentable.

Now these decisions were followed by two decisions. First was the Diamond v. Chakrabarty case and the other was the Diamond v. Diehr case. And these decisions signaled a little bit of a shift in the Supreme Court’s approach to patent law.

So just briefly, the Chakrabarty case was not a software case or business method case, it was about a bacteria. But the important thing to understand from this case is that the Supreme Court made a statement that anything under the sun that is made by man is patentable. So, this signals the inclusive nature of 35 U.S.C. §101.

So in view of that approach, the Diamond v. Diehr case – and by the way Diamond was the Commissioner of the Patent Office, which is why his name appears in both cases. But in the Diamond v. Diehr case, this was also involved a formula, it involved the Arrhenius equation and its use in a process for curing rubber.

And in the Diehr case, the Supreme Court came down on the side of the patentee. They supported the patentability of the subject matter. And what they said, and this comes up later in Bilski, is that if you look at the fact that there was a transformation of something from one state to another that was an indicator that this was patentable subject matter. That’s important for Bilski.

Now the Federal Circuit has series of cases that also dealt with this issue, and they were trying to take the Supreme Court’s approach and the issues and the facts that they were presented with, and tried to make decisions as to what was patentable and what was not. And we’re just going to talk briefly about In re Alappat, which was an application that was filed with the PTO.

The reason this decision is important is because at the heart of the claim there was an algorithm, but
unlike the Supreme Court, the Federal Circuit said you could have an algorithm in a claim as long as the subject matter around the algorithm was itself patentable.

Following this case, the stage was set for a lot of patent work with the State Street Bank case. This was the case in which the Federal Circuit really opened the doors for business method patents in United States, and this created a flood of applications and thus a struggle by the Patent Office to try to understand what they should allow and what they should reject.

This patent was directed to a financial application and it was invalidated at the district court under 101. But the Federal Circuit reversed District Court’s decision, and what it did is it created a new standard. It created the useful, tangible, and concrete result tests. So, this was in 1998 and this became the standard for business method and software patents.

The result of this Federal Circuit’s standard was that over the next 10 years many business method and software patents were issued by the Patent Office, but because they are very vague claims, there has been a little bit of a backlash. There has been a lot of litigation by companies that own these patents, but at the same time there are a lot of companies pushing for this right to get these types of patents because of their value; for example, software companies or actually financial companies, Morgan Stanley or Goldman Sachs. New types of patent applicants were being created as a result of this test.

So 10 years after State Street, the Federal Circuit was faced with the Bilski claims. This was an application directed to hedging risk, which basically means managing risk between different parties. And the claims were rejected at the Patent Office and then they were appealed to the BPAI, the Board of Patent Appeals and Interferences, and the BPAI sustained the rejection. So, the claims were rejected.

The BPAI apply the State Street standard for the useful, concrete, and tangible result. So when this got to the Federal Circuit, the Federal Circuit agreed the claims were not patentable. But then something very, very strange happened, the Federal Circuit sua sponte decided to hear this en banc. Now this is strange for two reasons. En banc consideration of a decision is very rare one, or two, or three times a year. Sua sponte means that nobody requested this, the court itself decided to undertake a review of the law on this issue.

And the Federal Circuit en banc issued a new opinion. They changed the standard, they changed the rules that is applied and they created a new test called the machine-or-transformation test. And they said that this is now the test that you have to apply to decide that a process is patentable under 101. This is a more restricted test than the useful, concrete, and tangible result test because most processes have some sort of result and patent prosecution attorneys were able to draft claims that included some sort of a result that ended in allowance.

Now the machine-or-transformation test was more restricted than the State Street Bank test because it required one of two conditions to be met, either the process had to be tied to a particular machine or the process had to result in a transformation. Now when you are talking about software or business methods, these are actually a little bit hard to fulfill.

Now to arrive at this standard, the Federal Circuit had actually reviewed a number of other tests that had been applied over the years, including their own test from the State Street Bank case, and they rejected all of those tests in favor of this more restrictive machine-or-transformation requirement.

Now it’s important to understand also that there is a group of individuals in the world, a very large group, who believe that there should be no such thing as a business method patent and no such thing as
a software patent. And these individuals had filed briefs with the Federal Circuit to try to encourage the Federal Circuit to rule that there was a categorical exclusion. That means you absolutely could not have a patent on a business method or a patent on software. But the Federal Circuit rejected a categorical exclusion. And this is important because some of the Supreme Court judges – justices feel differently about this.

So, we’re led now to the Supreme Court decision, which came out about 2 weeks ago, and as Professor Takenaka mentioned, this decision was much anticipated. All of the patent attorneys in the United States were waiting for this decision to hear what the Supreme Court would say about this machine-or-transformation test. And everyone expected to have a sort of dramatic decision.

The anticipation for this decision was increased by the fact that the Supreme Court took a very long time to issue this decision, longer than any other patent case in recent memory.

Now the reason it was a disappointment as a patent attorney is that while it did agree with the Federal Circuit that those particular claims in the Bilski application were not patentable, it wiped away the standards that the Federal Circuit had worked to develop to give practitioners and the district court some guidance on how to move forward with this issue.

Now for such a large issue, the decision was surprisingly short, it was only 12 pages. And what the Supreme Court did was go back through some of the precedents that we talked about, the Benson case, and the Flook case, and the Chakrabarty case, and they basically came to the conclusion that patent law in the United States should be inclusive, so a broad breadth of subject matter is patentable and it relied on Chakrabarty case for that proposition.

The two specific issues that the court addressed were the machine-or-transformation test used by the Federal Circuit and it rejected that test as the only test for patentability, the second issue it addressed was business methods and whether or not those should be excluded entirely from the subject matter that is patentable for 101.

So to reject the machine-or-transformation test, the Supreme Court basically engaged in statutory interpretation. What they did was they looked at the definition of process that is defined in 35 U.S.C. §100 and they said there is nothing in 35 U.S.C. §100 that mentions a machine-or-transformation, so there is no reason to require a machine-or-transformation be involved in this type of subject matter.

Now they didn’t throw the machine-or-transformation test away completely. What they said is that it’s a tool, it may be useful, it may be a useful way to do the analysis but it is not going to be a bright-line test that should be applied to this type of subject matter.

Now this was a very disappointing turn of events for us, a very disappointing decision for patent attorneys because the machine-or-transformation test was not perfect. It was a little bit difficult to know what was a transformation and whether or not machine was involved, but the patent bar, the patent attorneys were just starting to grapple and to understand how to draft claims that dealt with this bright line test and now that test has gone. Basically, the Supreme Court reversed the Federal Circuit’s view of the world and has put us back to the abstract idea analysis that was present in Benson.

The court looked at the difference between the information age that we are in now and the industrial age that we were in 50 years ago, and they tried to articulate a reason why 101 should adapt to these different types of industry and technology that are developing. And that was part of why they rejected the machine-or-transformation test, but it’s also why they rejected a categorical exclusion for business meth-
ods, which again was an issue that came up to the Supreme Court.

Now as they did with the rejection of the machine-or-transformation test, the Supreme Court relied on statutory interpretation to address this idea that business method should not be permitted. And what they did is they looked at 35 U.S.C. §273, which was enacted in 1999.

Now this statute was passed as a part of the First Inventor Defense Act, which was a statute that was considered and passed by Congress in response to the State Street Bank case because Congress was under pressure from the industry. The State Street Bank case caused a wave of new patents to be issued, and so Congress had included a new portion of the patent statute in 1999. They did not mend 101, but they included a new defense provision that included the concept of business method patents.

So, the Supreme Court relied on this intent by Congress. They specifically included this language, they must intend that business methods are okay. Now remember I said the decision by the court was 12 pages, but there was a concurring opinion that was about 75. And in the concurring opinion, it’s clear that four justices out of the nine do not believe that business method patent should be allowed. So, what this means four out of five is almost a majority, so if they get one more justices, although justice Stevens is retiring – if they get one more justice then it could be in 5 or 10 years when this issue comes back to the Supreme Court, business method patents could go away.

So in summary what happened was the Supreme Court rejected the machine-or-transformation test as the only test and they said you have to look back at our precedent to decide whether or not something is patentable under the abstract analysis.

So under the Federal Circuit’s machine-or-transformation test, if you satisfied that standard you knew that your subject matter was patentable, if you failed that standard you knew it was not patentable. This was a more restrictive standard than the State Street Bank test. But now, the Supreme Court has said this is just a tool, it’s not a test. So theoretically if you fail the machine-or-transformation test you are in this yellow area, sort of a gray zone, where you may be patentable or you may not.

So, this represents a significant amount of confusion in the patent law now because there is no clear idea of what constitutes an abstract idea, it’s just Supreme Court precedent and the patent examiner’s instinct. The machine-or-transformation test was an effort by the Federal Circuit to define a clear test, but now it’s just a tool. So, if you meet this test you are patentable, if you fail it you may be patentable if you can also meet the abstract test.

So it’s somewhat early, only 2 weeks after the decision, but we can get some ideas of what impact this will have on patent prosecution and patent litigation. Now 2 days after the Supreme Court decision, the PTO issue interim guidelines for the patent examiners to use when they are dealing with this issue. And basically, what they said was continue to apply the machine-or-transformation test. So as a practical matter, nothing has really changed in part because the abstract idea analysis is so vague that nobody can apply it. So, what the examiners are going to do is they are going to use the machine-or-transformation analysis. If you fail, the burden will probably be put on the applicant to explain why they don’t have an abstract idea. But as a practitioner, patent attorneys have difficulty articulating the difference because the abstract idea analysis does not have a lot of guidance, all you have to work with is the Supreme Court decisions.

So as a practical matter, you shouldn’t expect a lot of change with the patent examiners. They will just keep applying the machine-or-transformation test and use that as a tool to reject claims. Claim drafters
patent prosecutors have a big problem now. They don’t have a lot of guidance. So probably what will happen is everyone will continue to try to satisfy the machine-or-transformation test because if you do that that’s a tool that indicates that you have patentable subject matter. So, the point is as a practical matter on the prosecution side, this decision is not going to change how people will operate. The Supreme Court rejected the State Street Bank case, not explicitly but implicitly, so as a result, all that the patent attorneys have to work with is machine-or-transformation as a tool. So, if you draft a claim that satisfies the machine-or-transformation test, it will be difficult for the examiner to reject it under the abstract test.

So, the PTO will eventually issue final guidelines on how examiner should interpret the Supreme Court’s Bilski decision, but the impact is probably not going to be that dramatic and that people will continue to use the machine-or-transformation test confident and the fact that if they can meet that test that examiners will probably allow that subject matter to be evaluated under the other statutes.

Now as far as litigation goes, there was a dramatic increase in the number of invalidity motions filed under 35 U.S.C. §101 after the Federal Circuit’s Bilski decision. And accused infringers, defendants were arguing that the claims failed to meet the machine-or-transformation test and were therefore invalid, and many District Courts granted even summary judgment on this issue.

Now in the same way that the prosecutors will continue to use the machine-or-transformation test, the litigators will too. The litigators will continue to file motions using the machine-or-transformation test as the tool. The problem is it will be more difficult as a defendant to succeed on the motion for invalidity under 101 because there is still the possibility that it satisfies the abstract ideas standard.

So, this issue is far from over because it will come up in litigation and it will make its way to the Federal Circuit, and the Federal Circuit will need to articulate some way for the District Courts to apply Benson, the abstract ideas standard to a 101 validity challenge.

Now while the machine-or-transformation test was in effect, which was a relatively short period, only 2 years about, many patent holders were waiting because they do not want to file lawsuits if they thought that their claims would get challenged under 101, they were waiting to see what the Supreme Court would do. So those patent holders that were waiting to see the outcome are relieved. This is a pro-patentee decision by the Supreme Court, and I would expect that there will be an increase in the number of patent infringement lawsuits filed on business methods and software over the next year.

And this is especially true for non-practicing entities, NPEs, who derive a lot of their value from the patents that they are able to license and cert. And NPEs in particular like business method and software claims because they are very vague and they could be stretched to apply to various different accuse methods.

So just in conclusion about Bilski, what this shows us, a few words about the difference between the Supreme Court and the Federal Circuit. The Federal Circuit judges have a lot of patent experience about a third of their cases are patent cases, and so they are constantly dealing with the law and the facts and the decisions made by the district courts. And they are trying to give guidance to people who are practicing patent law and also to the district courts who are making the decisions. So their focus is on trying to come up with these tests, these rules.

Most district court judges are not very familiar with patent law. Most of them are not familiar with technology, so they often struggle with patent cases, so they really look to the Federal Circuit to provide
these objective standards that they can apply. District Courts are very good at applying tests, that’s what they look to do. What did the appeal court say, that’s the standard. So that’s what the Federal Circuit is trying to do. They are trying to help the district courts make decisions. That of course also helps the lawyers. The Supreme Court on the other hand is not really interested in that. The Supreme Court is looking at the constitution and they’re looking at the statute and that’s where their focus is. They are not focused on making tests or not making tests that’s not their interest.

So, the Supreme Court recently has made sort of a practice. They have now a record of taking Federal Circuit test and throwing them out. So, for example, in eBay case, there was a bright-line standard that if you proved infringement you had a presumption of irreparable harm. The Supreme Court took that away. Now, you have to do an analysis using a lot of factors little vague. For KSR, the Federal Circuit had developed the teaching suggestion motivation, the TSM test. They did that to help the district courts deal with obviousness issues 103. Supreme Court threw that out, and now with Bilski the Federal Circuit had developed the machine-or-transformation test and Supreme Court has taken that one away as well.

So in conclusion, this decision was a big disappointment to all the patent attorneys in the US. It did, however, confirm that if the Supreme Court takes a case from the Federal Circuit, it’s almost guaranteed that whatever the Federal Circuit is applying, whatever standard they are applying, is going to get tossed out. So that is a big problem for the security of patent law because the Federal Circuit deals with patent law more than any other court, and the Federal Circuit is trying to come up with these rules, so that patent owners and potential defendants know what to expect. And what we are learning is that the Supreme Court is unhappy with a lot of these tests that the Federal Circuit is coming up with. So, we now have a lot of uncertainty in this area and we will have to see how it develops, but probably in the next 5 or 10 years there will be more changes.

Prof. Takenaka: Thank you very much. I think depending on the case developed by the Federal Circuit such creation can be wider or very narrower, so it’s totally up to the Federal Circuit. And I just want to mention that I think maybe Judge Rader might be a little bit happier because in his concurrent opinion, he insisted that we should use just abstract ideas instead of machine-or-transformation test.

Recent Developments in the Inequitable Conduct Defense Both in Courts and in Congress

(Douglas F. Stewart, Dorsey & Whitney LLP, Seattle)

Stewart: So just briefly because we don’t have as much time to spend on this topic, we are going to talk about this defense and what it requires to be proved to the court.

Basically, you have to prove that material information was withheld or misrepresented to the Patent Office, and you have to prove that it was done with an intent to deceive. If you can prove both of those things, then the court will evaluate whether the materiality of the information and the intent were high enough to merit rendering the patent unenforceable for inequitable conduct.

Now this is a defense that’s easier to allege than it is to prove because in the US the patent is presumed to be valid under 35 U.S.C. §282 and you have to prove this defense by clear and convincing evidence which is a very high standard.

There are various types of information that might be material. I believe that Professor Takenaka was
referring to the fact that often times information in the prosecution of a foreign counterpart application is not presented to the USPTO. This in fact is the result of the first step that a patent litigant does, a patent defendant. They take the file history for the application of the patent that had issue and they look to see whether all of the prior art in that file is the same as the prior art in the files of the application that is counterpart to that application in the EU or in Japan.

So, what that means is that any prior art that is relied upon by the JPO or the EPO for rejection needs to make its way into the USPTO file. That’s this last category, failure to disclose material information. And as I said, it’s the first thing that patent defendants, accused infringers do is they evaluate the content of the US filed history and the counterpart filed histories in other countries.

There have been a number of standards that the courts have used over the years to determine whether information is material, but currently there are two standards and either standard is applicable. One is called the reasonable examiner standard, which is simply that if an examiner would have wanted to see that information in evaluating application, its material, the other is a statutory description, and it relates to whether or not you have said something to the Patent Office that is different than a position that you’ve taken later on.

So, the materiality standards were actually not that difficult to meet specifically because of the reasonable examiner standard, but intent is much harder to prove. Nobody ever admits in a deposition that they intended to deceive the Patent Office, so you have to develop a circumstantial set of facts that convince the court that there was intent to deceive.

Now the inference that there was an intent to deceive is drawn if certain factors are present. For example, if the information was highly material, there is no good explanation, there is some sort of acknowledgment that it was done intentionally, whether with an intent to deceive or not, but it was intentional, and whether there was a pattern of behavior by the patent attorney. And this inference goes to the action of the patent attorney, so it has gotten a lot of attention in the United States because patent attorneys are being accused of lying to the Patent Office.

Now as a result of this bad publicity, there has been a lot of call, a lot of action, a call to action to make changes to this law, so there has been some talk about patent reform, there has been some action by the court, but the reality is that the court moves much quicker than Congress does, and in particular, Chief Judge Rader – Judge Rader is now the Chief Judge of the Federal Circuit, he doesn’t like this defense because it requires you to accuse a patent attorney of doing something bad. So lawyers are accusing other lawyers of acting badly and he doesn’t like that.

As a defense to patent infringement, it’s very effective because it wipes out the entire patent if every claim is unenforceable. You can get fee awards and when you go to the Federal Circuit on appeal if you’ve won at a district court, it’s very difficult for the patentee to get that overturned. The materiality and intent determinations are reviewed under the clearly erroneous standard which is about 10% reversal rate, but the final determination when the judge decides to render the patent unenforceable that’s under the abuse of discretion standard, which is a very, very high standard. Only about 2% of district court discretionary decisions are reversed by the Federal Circuit.

So moving quickly to the Therasense case, which Professor Takenaka mentioned, this was a case where at a district court there was a bench trial because this is an issue for the judge to decide, the jury does not need to be involved. The judge found that there were some statements that the applicant had made in
the EPO, the European Patent Office, that contradicted some statements made to the USPTO. So that information was deemed material. And at the bench trial, the issue of intent was tried with witnesses and the judge was there to view the witnesses’ credibility and listen to their explanations as to why the EPO filed history was different than the USPTO filed history, and based on the witness credibility and the fact that he didn’t believe the witnesses, he rendered the patent unenforceable.

So, this was appealed to the Federal Circuit and the three-judge panel had to apply those standards clearly erroneous and abuse of discretion and under those standards they found no reason to reverse the district court decision. So, the patent owner or the patentee filed a petition for rehearing en banc. They asked that the entire court consider this issue. And they identified three conflicts with prior Federal Circuit law specifically that the district court applied, they should have known standard which they said is not permissible that the court evaluated the witnesses’ credibility based on his own interpretation of the technical references and that he didn’t have the ability to evaluate those. And then finally, they pointed to Federal Circuit law, which says that you can as an attorney make arguments to the Patent Office, and you can advocate for your client even if that statement is not an accurate representation. The rationale being that the examiner has the reference and the examiner can evaluate for himself whether or not your argument has any value.

So, the Federal Circuit evaluated the briefs that were filed by the parties as well as by interested parties, including Professor Takenaka, and they decided to hear this issue en banc, and this constitutes a complete review of the concept of an inequitable conduct as a defense. And they issued six questions that they want to be answered in the context of this en banc hearing.

Now there is no way of knowing how these issues will be decided. These were the issues that the Federal Circuit drafted that they want to address. So, what we can is we can just evaluate some of the problems that will result from these issues identified by the Federal Circuit. Starting with the first one which is should this whole materiality intent balancing this three-step process – should this just be thrown out or should it be modified somehow and what should be done with that standard.

So as it is with the Bilski issue, the Bilski decision, the concern here is if you do away with the current framework and the current standard, what do you replace it with? Part of the problem is you want to ensure that in the future a patent applicant who has gone through the steps to prosecute the patent and they have been awarded a patent, it’s been issued to them, they need to know whether or not they will be attacked later on. So in prosecution right now the standard of materiality encourages disclosure by the attorneys, so attorneys have a tendency to be over inclusive in what they give to the examiner, but they do that in relationship with the standard that’s been applied by the Federal Circuit in litigation. So, if they change that framework, how will that interact with the prosecution activities?

So, this comes back to the issue of how does the Federal Circuit give guidance to the district court to deal with this issue. So one of the proposals that’s apparently being considered based on the question is whether or not the current standard should be replaced with a fraud standard or an unclean hands standard. Now common law fraud in the United States has a very high burden of proof, it’s different than inequitable conduct. Inequitable conduct requires evidence of intent, but you may not have a lot of evidence, you just need enough to get over the threshold, but fraud is a completely different standard and it has a very high burden of proof. There’re often times cases where both fraud and inequitable conduct are alleged, but only inequitable conduct is proven, fraud is not.
Now inequitable conduct is also tied to some other issues that come up in patent infringement cases, specifically exceptional case determinations, where if a defendant is able to prove inequitable conduct, they may be able to recover their attorney’s fees. In patent cases, that can be on the order of $5 million. So, this is a significant issue. There is also an issue with antitrust counterclaims. Currently, to have a patent based antitrust counterclaim you have to prove fraud, so there are often cases where an antitrust counterclaim is alleged but ultimately it’s not proven because inequitable conduct may be proven, but not fraud. So will they have to change some sort of standard for antitrust counterclaims if they make a change to the inequitable conduct framework.

Now the Federal Circuit is also going to be revisiting the standard for materiality. Now what they’re posing as question is a but-for standard; but-for is causation. This is an old standard. This used to be a standard that was applied for materiality and the Federal Circuit law itself went away from that standard because this is harder to prove, but now with this double materiality standard, there is a lot of disclosure to the PTO. And so what has to be weighed is the PTO’s ability to search on its own and the obligation of the applicant to provide information to the PTO.

The court is also going to look at the inference of intent and when that’s appropriate to make. And specifically testimony is often used to infer intent by the district court. But what the applicant thinks is material at the time of filing is often very different than what the court determines is material at the time of the litigation because the court has the benefit of hindsight.

Now it appears from the questions, including the next one, that the Federal Circuit is considering abandoning the balancing process that the district court does. And the district court when it does that has some leeway to make a decision based on its own view of the facts is an inequitable determination.

And finally, the Federal Circuit is going to look at other Federal agencies and standards that they apply and not really sure how this is going to work because there are no other agencies like the PTO and there are no other issues like inequitable conduct, it’s very unique.

So the oral argument in this case is set for November of 2010 – November 9th, so the parties will go and argue in front of the Federal Circuit and decision will come out several months later, but it has the potential to dramatically alter this defense for alleged infringers. Now, this is patent reform in the courts. Congress is also considering some patent reform as there have been for the past 5 years, but unlike the questions posed by Federal Circuit which indicate a willingness to do away entirely with defense, Congress’s proposal creates a new supplemental examination process.

This supplemental examination process basically allows the patentee to submit anything they want to the PTO for consideration. So anything they find that was missed, either intentionally or not, they can submit and it trigger an ex parte reexamination if the PTO decides that the information raises a substantial new question of patentability.

So if the patent emerges from reexamination, then that information cannot be used against the patentee anymore. So, it allows the patentee to avoid the charge of inequitable conduct before it goes to enforce the patent, it can scour, it can search its files, and it can talk to the inventors again and make sure that all the information went to the PTO. And it can do that in advance of litigation, so that it does not have to wait for the case to be filed, but it has to do it before the litigation because there is an exception, which is that if inequitable conduct is pledged, is asserted by the defendant and that’s how the plaintiff learns about the information, they cannot use this process.
So, this provision has been agreed to by a committee of the senate but it has not yet been subject to a full vote. And it’s most likely that the Therasense decision from the Federal Circuit will come out in advance of Congress’ movement on this supplemental examination procedure. So, I think we can expect to see some changes inequitable conduct by the middle of next year.

Q&A Session

Q1: I would like to ask about the Bilski case. After the CAFC’s decision, it was discussed whether a process of diagnosis is patentable. According to your explanation, after the decision of the Supreme Court, USPTO will basically continue to apply the Machine or Transformation test. Does it mean that USPTO initially sends a notification of reasons for refusal for a process of diagnosis? If so, how should we deal with that practice?

Stewart: There’s actually a decision that was remanded to the Federal Circuit from the Supreme Court not decided on that relates to this issue and there was a method patent that was filed and it was a method of dosing a medicine for injection into a patient. And that method claim required evaluating the patient’s existing metabolic state, their existing biochemistry, making a determination and then injecting a certain dosage. So that case is actually going to go back to the Federal Circuit and the Federal Circuit is going to evaluate that case under the new standard that’s probably the closest to what you are dealing with. At the PTO level, I think they will continue to apply the machine-or-transformation test until the PTO issues a more definite guidelines about how to apply this abstract idea standard.

So that case is really going to be the first opportunity for the Federal Circuit to apply the Supreme Court’s Bilski decision to something which is not clearly tied to a machine-or-transformation at least on its face. So, we have to see what the Federal Circuit does with that.

Q2: I would like to ask about the Inequitable Conduct. I think it’s very hard to submit such various documents to USPTO in application procedure. I’d like to know how patent attorneys in the U.S. think of the inequitable conduct.

Stewart: Well, patent litigators are disappointed to see the defense being changed, patent prosecutors are much happier. And the reason is that patent prosecutors – patent prosecution attorneys are often accused of inequitable conduct and if it is proven, the patent attorney himself or herself has no standing to go to the Federal Circuit to ask the Federal Circuit to change the law. So for example, I had a case that went to trial on this issue, I represented the defendant. We proved that there was inequitable conduct and the attorney who was at fault tried to appeal to the Federal Circuit and the Federal Circuit said the parties themselves are not appealing so you cannot appeal. So that means that he has to now go through the rest of his career having been found liable for inequitable conduct essentially. So it’s a very significant impact on a patent attorney’s career and all the prosecutors are very concerned about it. So, this would be a big change in the law and will probably make them very happy.

I would just add that under the current situation, under the current law, the intent requirement is sort of a safety valve for the patent attorney because as long as the patent attorney is operating in good faith, it’s unlikely that they’ll do anything that would lead a court to believe that they had intent to deceive. But
this change would basically remove that obligation from the patent attorney to be constantly checking and second guessing what they are doing. So overall, for patent prosecution attorneys and patent prosecution employees, this is going to be a very good thing.