

***KSR*'s UNINTENDED CONSEQUENCES: MORE INEQUITABLE CONDUCT CLAIMS IN PATENT LITIGATION?**

by

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In April 2007, a unanimous U.S. Supreme Court decided *KSR International Co. v. Teleflex Inc.*, 127 S. Ct. 1727 (2007). The landmark decision plunged a knife into patent collectors, especially of the large portfolio variety, because it had the practical and immediate effect of making patents significantly more difficult to obtain. In the first quarter of this year alone, allowances of patent applications declined 43%, according to Jon W. Dudas, the Undersecretary of Commerce for Intellectual Property.¹

The issue in *KSR* was all about obviousness which is, by far, the condition of patentability most frequently debated between patent applicants and the United States Patent and Trademark Office ("PTO"). Since 1961, when the Federal Circuit's predecessor court, the U.S. Court of Customs and Patent Appeals ("CCPA"), decided *Application of Bergel*,² the lower courts and the PTO have strictly observed the teaching-suggestion-motivation ("TSM") test in deciding the question of obviousness. Under the TSM test, a patent claim is only proved obvious if some teaching, suggestion or motivation to combine the prior art teachings can be found in the prior art, the nature of the problem, or the knowledge of a person having ordinary skill in the art.³ *KSR* put an end to that practice, and suddenly, patents were much more difficult to obtain.

It is highly doubtful that the Justices could have foreseen the difficulties for the courts and Congress that their unanimity in *KSR* will spawn. This LEGAL BACKGROUNDER will discuss these matters in the context of the expected huge uptick in instances of inequitable conduct in procuring patents at a time when, ironically, Congress is being urged to tighten the rules that govern the availability of the defense.

The Impact of KSR on the PTO's Handling of Obviousness. Within weeks of the *KSR* decision, the Deputy Commissioner for Patent Operations of the PTO distributed a preliminary report on the decision in which the TSM test was described in terms that suggested it was just short of being moribund. Future guidelines were promised, and these arrived in October 2007.⁴ The PTO's summary in the Guidelines of how to make a determination of obviousness should have been ample warning of the stinginess in issuing patents that has now overtaken the Office:

¹Robert Pear, *Patent Law Battle a Boon to Lobbyists*, N.Y. TIMES, Apr. 30, 2008 at C1.

²292 F.2d 955, 956-57 (C.C.P.A.1961).

³See *KSR Int'l Co. v. Teleflex Inc.*, 127 U.S. 1727, 1730 (2007).

⁴Examination Guidelines for Determining Obviousness Under 35 U.S.C. 103 In View of the Supreme Court Decision in *KSR International Co. v. Teleflex Inc.*, 72 Fed. Reg. 57,526 (Oct. 10, 2007) [hereinafter *Guidelines*].

In short, the focus when making a determination of obviousness should be on what a person of ordinary skill in the pertinent art would have known at the time of the invention, and on what such a person would have reasonably expected to have been able to do in view of that knowledge. *This is so regardless of whether the source of that knowledge and ability was documentary prior art, general knowledge in the art, or common sense.*⁵

That last factor – common sense – is a subjective license to reject claims for obviousness. It appears that the PTO has been busy wielding that sanction, at least to the tune of a decline of 43% in patent application approvals during the first part of 2008.⁶

The Patent Practitioner's Dilemma. In the heyday of TSM, a patent practitioner soon learned two important strategies: (1) patent fences could be easily constructed around even the narrowest advances, and (2) a pending continuation application should be maintained to trap the unsuspecting competitor. Both of these strategies were facilitated after an applicant received an initial allowance of claims based upon the patent examiner's inability to satisfy TSM. With the legal ability to combine principal prior art references stripped away from the PTO, the opportunities for fence-building and trapping were plentiful. The steady rise in the number of patents issued by the PTO in the last few decades of the 20th century can be attributed, at least in part, to the relative ease of allowance offered by patent prosecution under TSM.

This portfolio building coincided with an increased understanding of, and appreciation for, the value of patents by enterprises in all fields. The expansion in the scope of patentable subject matter brought on by the courts also fueled the rush. When *KSR* brought about an abrupt change in the PTO's attitude toward obviousness, neither patent practitioners nor their clients were ready. The conventional technique of preparing a patent application and prosecuting it with as little to say on the record as possible, had been good elixir for the danger of verbosity in claim construction and prosecution history estoppel. Now it appears that the record made by an applicant may have to be expanded. The patent bar is casting about for easy, efficient and relatively inexpensive tactics to counteract the debilitating effect of *KSR* in the PTO. The bar will find the answer in declaration practice; and unfortunately they will find much more.

The Use of Declarations to Overcome an Obviousness Rejection. The PTO "Guidelines" on determining obviousness follow the Supreme Court's lead in *KSR*, namely, counseling the use of the framework for an objective analysis of the issue as stated in *Graham v. John Deere Co.*⁷ PTO personnel are told that they must evaluate the objective evidence produced by the factual inquires set out in *Graham*.⁸ When making an obviousness rejection, they are encouraged to include explicit findings as to how a person of ordinary skill would have understood prior art teachings, and what a person of ordinary skill would have known or could have done.

⁵*Id.* at 57,527 (emphasis added).

⁶Pear, *supra* note 1 at C1. The amount of patent applications to the PTO has doubled in the last 10 years alone, averaging an approval rating of 62 to 72 percent. However, according to the Undersecretary of Commerce for Intellectual Property, the applications have increasingly become worse in quality and involve unpatentable ideas. *Id.*

⁷383 U.S. 1 (1966).

⁸*Graham* states:

Under [35 U.S.C.A.] § 103, the scope and content of the prior art are to be determined; differences between the prior art and the claims at issue are to be ascertained; and the level of ordinary skill in the pertinent art resolved. Against this background, the obviousness or nonobviousness of the subject matter is determined. Such secondary considerations as commercial success, long felt but unsolved needs, failure of others, etc., might be utilized to give light to the circumstances surrounding the origin of the subject matter sought to be patented.

383 U.S. at 17-18.

Unlike the first two *Graham* factors – scope and content of the prior art, and differences between the claimed invention and the prior art – which are relatively straightforward and usually not controversial in a particular case, the third inquiry addressed to the skill of the ordinary artisan allows for marked differences of opinion. This is the battleground for traversing obviousness rejections, especially if the PTO's findings under the third *Graham* factor are supported, in any measure, by the personal technical expertise of an examiner.⁹

Once the PTO has established the *Graham* factual findings and concluded that the claimed invention would have been obvious, the burden then shifts to the applicant. The applicant's response will take the form of a showing, usually by attorney argument, that the PTO erred in making its findings. Sometimes evidence is offered to show that the claimed subject matter would have been nonobvious. The latter presentation likely will be in the form of a declaration or several declarations that directly refute the PTO's explanation for its obviousness conclusion.

The declaration route will be seen by patent prosecutors as being more persuasive, both at the examiner and Board of Appeals levels, and ultimately more cost effective for the client. Even though declaration practice was carefully avoided in the heady days of TSM and high allowance rates as unnecessarily forthright (and thus dangerous), *KSR* practically demands a resurgence of the practice.¹⁰

The Use of Declarations to Challenge the PTO's Findings on Obviousness Will Tempt Applicants to Overreach and Eventually Bring Inequitable Conduct Charges Crashing Down on Them. The dreaded charge of inequitable conduct has two elements: materiality and intent to deceive. Once a district court has found a threshold level of both materiality and intent to deceive, the court must balance the evidence to determine if equity should render the patent unenforceable.¹¹

When an applicant submits the declaration of an expert or a person professing at least ordinary skill in the art, he or she, perhaps unwittingly, has taken a major step toward enabling an accused infringer to prove the materiality component. The Federal Circuit has found that “the submission of a false affidavit may be determined to be ‘inherently material.’”¹²

The submission of a declaration may involve a double whammy, drawing in the intent to deceive component as well. For instance, in *Paragon Podiatry Laboratory, Inc. v. KLM Laboratories, Inc.*, the Federal Circuit stated that the inference that material false statements contained in an affidavit were made with deceptive intent “arises not simply from the materiality of the affidavits, but from the affirmative acts of submitting them, their misleading character, and the inability of the examiner to investigate the facts.”¹³

Thus, in law, the submission of a Declaration Under Rule 132 to traverse an obviousness rejection may give the proponent of a charge of inequitable conduct a leg up. At a minimum, it will prompt that advocate to conduct relentless discovery and investigations in order to develop some basis to allege that certain contents of the declaration are false.¹⁴

⁹The Guidelines sanction such treatment, stating: “Office personnel may rely on their own technical expertise to describe the knowledge and skills of a person of ordinary skill in the art.” *Guidelines* at 57,528; *see also id.* at n.34.

¹⁰Declarations under Rule 132 were popular tools for practitioners before the establishment of the Federal Circuit and the increased popularity of the inequitable conduct defense amongst accused infringers.

¹¹*See LaBounty Mfg., Inc. v. U.S. Int'l Trade Comm'n*, 958 F.2d 1066 (Fed. Cir. 1992).

¹²*Digital Control, Inc. v. Charles Mach. Works*, 437 F.3d 1309, 1318 (Fed. Cir. 2006) (citing *Refac Int'l. Ltd. v. Lotus Dev. Corp.*, 81 F.3d 1576, 1583 (Fed.Cir.1996)).

¹³984 F.2d 1182, 1191 (Fed. Cir. 1993).

¹⁴Matters could become worse if a *prima facie* case of actual fraud is made out because the proponent of inequitable conduct could then escalate the charge to *Walker Process* fraud in the procurement. The proponent could then invoke the crime-fraud exception to the attorney-client privilege doctrine, eventually adding a counterclaim under Section 2 of the Sherman Act.

Is there reason to believe that a proponent of inequitable conduct would succeed in finding falsehoods in a declaration? Ordinarily, the answer would be "no." It is this generally-held belief in candid conduct by applicants that has prompted Congress to actively consider raising the bar for showing inequitable conduct.¹⁵ It also is this belief that prompts a judge on the Federal Circuit to speak out passionately on the ills of the inequitable conduct defense.¹⁶ The conduct that results from *KSR* may alter these attitudes.

There are circumstances existing today that beckon applicants to execute their declaration practice more aggressively. First, there is the now firmly established rule that the PTO will not address inequitable conduct. The Manual of Patent Examining Procedure explains that the Office does not believe that it is the proper forum to assess compliance by applicants with the duty of candor and good faith.¹⁷ Accordingly, defects in a declaration that amount to inequitable conduct (or even *Walker Process* fraud) will not come to light in any justiciable sense until the patent in question is subjected to litigation in a federal court. Such a built-in postponement of the day of reckoning may offer some short term sense of security.

Second, and related to the first circumstance, is the undeniable move away from accountability in all phases of 21st century endeavor. When a patent attorney or an inventor or a technical consultant is actually called upon to answer for some document or procedure involved in a patent dispute, our mobile society may have put that person either out of reach in any practical sense or divorced him or her from caring about the outcome of the dispute. Either or both of these circumstances may embolden persons participating in patent prosecution after *KSR* to test the malleability of the system for the sake of immediate satisfaction in obtaining patents over obviousness rejections.

A View of the Inequitable Conduct Crystal Ball. Frustration with sinking allowance rates caused by faithful adherence by the PTO to the relatively vague guidance of *Graham* and *KSR* will cause patent practitioners to shift into a new gear in employing declarations under Rule 132. When patents obtained with help of such declarations are litigated, defense trial counsel will expand their efforts to establish inequitable conduct. One approach that seems to be gaining favor with trial judges, who may be disillusioned by the disturbing specter of the Federal Circuit's *de novo* treatment of their carefully crafted claim constructions, is to stay discovery on and delay jury resolution of the issues of validity and infringement in favor of an early bench trial on inequitable conduct.¹⁸ If this practice gains a foothold and results in regular findings of inequitable conduct,¹⁹ the complexion of the Federal Circuit's docket will change radically. The rest is only a guess.

¹⁵See Patent Reform Act of 2007, H.R. 1908, 110th Cong. (2007).

¹⁶See *Aventis Phama S.A. et al. v. Amphastar Pharm., Inc.*, 525 F.3d 1334, 1349-53 (Fed. Cir. 2008) (Rader, J., dissenting).

¹⁷MANUAL OF PATENT EXAMINING PROCEDURE § 2010 (2005).

¹⁸Judge Rader, in his *Aventis* dissent, made this observation which appears to reflect surprise at an irregular procedure, stating that "[t]his court has even observed a number of cases, such as this one, that arrive on appeal solely on the basis of inequitable conduct where the trial court has apparently elected to try this issue in advance of the issues of infringement and validity." *Aventis*, 525 F.3d at 1350 (Fed. Cir. 2008) (Rader, J., dissenting).

¹⁹This is a likely outcome if the procedure is to be case dispositive.