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## TAFAS VERDICT IS A SETBACK FOR PATENT OFFICE

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The U.S. Patent and Trademark Office (the “PTO”) has been the subject of a lot of criticism over the past few years. In some art units, it can take years before an Examiner first looks at a newly filed patent application. When an Examiner does finally look at the application on the merits, there is a perception that many Examiners are allowing applications that should not be allowed or, conversely, are not allowing applications that should be allowed. This criticism has been reflected in the press, Congress, and even by the Supreme Court.

The PTO over the past year has attempted to respond to this criticism in a few dramatic ways. It has proposed a series of new rules that seek to impose limitations on applicants in an effort to reduce the PTO’s workload. One set of such rules relates to continuation applications and claim examination practice (the “Final Rule”). See 72 Fed. Reg. 46,716 (Aug. 21, 2007) (to be codified at 37 C.F.R. pt. 1).

Many people objected to these rules as outside of the PTO’s rulemaking authority and challenged them in court. On April 1, 2008, the U.S. District Court for the Eastern District of Virginia struck down the Final Rule in a manner that, if upheld on appeal, would prevent the PTO from implementing similar rules in the future. See *Tafas v. Dudas et al.*, 1:07cv846, 2008 U.S. Dist. LEXIS 26086 (E.D. Va. April 1, 2008).

This Guest Column puts *Tafas* in context. Part I sets forth a brief summary of the prior practice and the Final Rule. Part II sets forth a brief explanation of the procedural history of the *Tafas* case. Part III reviews the Court’s decision. Part IV addresses some of the issues that are likely to arise in the future as a result of this decision.

### Part I: The PTO Rules on Continuing Applications and Claims Practice

On August 21, 2007, the PTO published the Final Rule, which revised its rules of practice relating to continuing applications, requests for continued prosecution, and examination of claims. 72 Fed. Reg. 46,716. The stated purpose of the Final Rule is to provide “a better focused and effective examination process” to reduce the extensive backlog of patent applications at the PTO and to improve the quality of issued patents. *Id.* at 46,717.

The Final Rule limits the number of continuing applications that can be filed as a matter of right. It also limits the number of claims that an application can include before the applicant must conduct a prior art search and provide the PTO with a substantial amount of additional information concerning the application.

#### A. Current PTO Practice

Under the current statutory framework, a later filed application can claim the benefit of the filing date of an earlier filed application (commonly known as a “parent” application)—either in whole (referred to as a “continuation” application) or in part (referred to as a “continuation-in-part” or “CIP” application)—as long as certain requirements are met. See 35 U.S.C. § 120.

As an alternative to filing a continuation application, applicants often choose to respond to a final Office Action in an

application by filing a request for continued examination (“RCE”). An RCE has the same application serial number as the parent application, while a continuation or CIP application will be assigned a new application serial number.

Each issued patent should include claims to only one invention. *Cf.* 35 U.S.C. § 101. If the claims in a patent application are directed to more than one invention, the PTO can issue a restriction requirement. This requirement compels an applicant to elect only one invention, and its corresponding set of claims, to be the focus of the prosecution for that application. 35 U.S.C. § 121; 37 C.F.R. § 1.142. The applicant may file additional patent applications, called “divisional” applications, to seek allowance of claims that were not elected in the earlier application (once again commonly referred to as the “parent” application). 35 U.S.C. § 121. In order to obtain the benefit of the parent application’s filing date, the divisional application must satisfy the same requirements as a continuation or CIP application. 35 U.S.C. §§ 120-121.

Under current PTO practice, there is no *per se* limit to the number of continuation, CIP, or divisional applications or RCEs that an applicant can file. Similarly, under current PTO practice, an applicant is entitled to submit as many claims as desired in a patent application. If the applicant submits for examination more than 3 independent claims or 20 total claims in a single application, the applicant must pay additional filing fees. 37 C.F.R. § 1.16(b)-(c).

## **B. Changes Being Made by the Final Rule**

Under the Final Rule, current PTO practice was to be changed in a variety of substantive ways that affected the rights of a patent applicant:

1. The number of continuing patent applications that an applicant could file as a matter of right was limited to two continuation or CIP applications plus one RCE in the application family. (New Rule 37 CFR 1.78 and 1.115) (“the 2+1 Rule”). (There would be no limit on the number of properly filed divisional applications).
2. The number of claims that could be presented in a single patent application as of right was limited to no more than five independent claims and no more than 25 total claims (New Rule 37 CFR 1.75) (“the 5/25 Rule”). Exceeding this limitation would require the applicant to conduct a patent search and submit an Examination Support Document (“ESD”).
3. An applicant would not be able to file multiple applications that are based on the same disclosure and contain patentably indistinct claims in an attempt to get around the Final Rule’s limitations on the number of claims that can be included in the same application. (New Rule 37 CFR 1.78(f)).

For a detailed explanation of the Final Rules see Charles R. Macedo and Marion P. Metelski, *New PTO Rules on Continuing Applications and Claim Examination Practice: Learning to Count to 2 (+1 RCE) and 5/25*, NYIPLA Bulletin, Sept./Oct. 2007 (available at [www.nyipla.org](http://www.nyipla.org) and [www.arelaw.com](http://www.arelaw.com)).

## **Part II: The Procedural History to *Tafas v. Dudas***

The Final Rule has been the subject of extensive controversy and much consternation to patent applicants and their attorneys and agents.

On August 22, 2007, the day after the Final Rule was published, a lawsuit was filed seeking to block its implementation on the grounds that its issuance is beyond the PTO’s rulemaking authority and violates the U.S. Constitution. *See Tafas v. Dudas*, No. 1:07Civ.846 (E.D.Va. filed Aug. 22, 2007). A second lawsuit was filed in early October 2007, which was thereafter consolidated with the first lawsuit. *See SmithKline Beecham Corp. v. Dudas*, No. 1:07Civ.1008 (E.D. Va. filed Oct. 9, 2007).

The day before the Final Rule was due to go into effect, the Court granted a preliminary injunction prohibiting the Final

Rule from going into effect. See *Tafas v. Dudas*, 511 F. Supp. 2d 652 (E.D. Va. Oct. 31, 2007).

The Court then set a schedule for briefing on cross-motions for summary judgment. In addition to the parties' submissions, a plethora of roughly two dozen *amici curiae* joined the case and filed their own submissions.

On February 8, 2008, the Court held a hearing on the competing summary judgment motions.

On April 1, 2008, the Court issued its Decision and its Order voiding the Final Rule. See *Tafas v. Dudas*, 2008 U.S. Dist. LEXIS 26086 (E.D. Va. Apr. 1, 2008).

### Part III: The Court's Decision.

In its April 1, 2008 Decision, the Court held:

"After thorough examination of the parties' briefs, the arguments of roughly two dozen amici curiae, and the extensive administrative record, the Court finds that the Final Rules are substantive in nature and exceed the scope of the USPTO's rulemaking authority under 35 U.S.C. § 2(b)(2). Consequently, the Court will grant summary judgment to GSK and Tafas and void the Final Rules as 'otherwise not in accordance with law' and 'in excess of statutory jurisdiction [and] authority.' 5 U.S.C. § 706(2)."

*Id.* at \*15.

In reaching this decision, the Court explicitly found:

1. Final Rule 78 imposed a substantively different rule of law for continuation applications than the statutory scheme adopted by Congress under 35 U.S.C. 120:

"Though Final Rule 78 does not completely prohibit applicants from filing more than two continuation or continuation-in-part applications, because the USPTO intends to deny additional applications in almost all circumstances, see 72 Fed. Reg. at 46769-77, the 'could not have been submitted' standard of the petition and showing requirement effectively imposes a hard limit on additional applications."

*Id.* at \*25-26 (footnote omitted).

The Court further found:

"Instead, Final Rule 78 and the hard limit it imposes changes existing law and deprives applicants of their valuable rights under 35 U.S.C. § 120 to an unlimited number of continuation and continuation-in-part applications as a matter of right. By so doing, it may also impact applicants' rights under Sections 102 and 103 and result in the denial of otherwise meritorious patents."

*Id.* at \*26.

2. Final Rule 114 further imposed a substantively different rule of law on RCE's in two ways:

"First, it places a limit on RCEs as of right on the basis of application family, rather than on the basis of each individual application, whether it be a parent application or a continuation or continuation-in-part application. See 72 Fed. Reg. at 46,737. While there is no case law interpreting the scope of Section 132, limiting RCEs based on application family is a clear departure from the plain language of the statute, which states that the USPTO must provide for the continued examination of each *application*."

*Id.* at \*27-28.

"Second, and most importantly, the words 'shall' and the phrase 'at the request of the applicant' in Section 132(b) are best read as evidence that Congress intended to allow for an unlimited number of RCEs and intended to commit the invocation of the continued examination process to the discretion of the applicant, not the USPTO. In contrast to this mandate, Final Rule 114 limits the number of RCEs per application family to one as a matter of right. Additionally, Final Rule 114's 'petition and showing' requirement is identical to Final Rule 78's in that it imposes the same type

of hard limit on the filing of further RCEs. As a result, Final Rule 114 significantly changes existing law and alters applicants' rights under 35 U.S.C. § 132 to an unlimited number of RCEs per application at their discretion."

*Id.* at \*28-29 (footnote omitted).

3. Final Rule 75 and 265 also impose a substantively different rule of law on the number of claims an applicant can present and the type of search that an applicant is required to perform. In this regard, the Court found:

"Instead, the ESD requirement changes existing law and alters the rights of applicants under the current statutory scheme by shifting the examination burden away from the USPTO and onto applicants. Final Rule 265 demands that applicants conduct a broad search of patents, patent applications, and literature, and provide, among other things, a 'detailed explanation' of 'how each of the independent claims is patentable over the cited references.' 72 Fed. Reg. at 46842; 37 C.F.R. § 1.265(a). However, the Federal Circuit has stated that applicants have 'no duty to conduct a prior art search' and 'no duty to disclose art of which an applicant could have been aware.'"

*Id.* at \*32-33 (citations omitted).

The Court also found that these rules improperly changed substantive law by shifting the burden of examination and burden of making a *prima facie* case of unpatentability from the PTO to the Applicant. (*Id.* at \*32-34).

Thus, the Court concluded:

"Because the USPTO's rulemaking authority under 35 U.S.C. § 2(b)(2) does not extend to substantive rules, and because the Final Rules are substantive in nature, the Court finds that the Final Rules are void as 'otherwise not in accordance with law' and 'in excess of statutory jurisdiction [and] authority.' 5 U.S.C. § 706(2)."

*Id.* at \*34.

## Part IV: What Is Next?

The Court's decision rests on the fact that the Final Rule is substantive and thus beyond the PTO's rulemaking authority. If allowed to remain in force, this decision effectively precludes the PTO from reissuing the Final Rule in the same or similar form without a substantive change in the Patent Law.

In this regard, the PTO is expected to appeal the Court's Decision and Order. Thus, absent a change in administration (and point of view) with the upcoming Presidential election, the appellate court will likely get an opportunity to address this issue. Because the District Court's decision is well-reasoned and supported by law, the PTO's chance of success on appeal is severely doubted by most observers.

However, the PTO's determination to shift its burden of examination to applicants and to adopt new rules that would have the effect of discouraging patent applications are likely to show up in other arenas.

For example, Section 12 of the version of the Patent Reform Act of 2007 that was passed by the House of Representatives (H.R.1908) provides the PTO with authority to require its new form of Examination Support Document--*i.e.*, a search and application of the identified prior art--for every application. The Secretary of Commerce has already written to the Senate to express the Bush Administration's support for a comparable provision included in Section 11 of the Senate Bill (S. 1145).

Patent reform could also potentially include statutory provisions that grant the PTO the type of substantive rulemaking authority that the Court wisely held the PTO does not currently possess.

It is also not beyond imagination that the PTO may seek to issue other new rules and risk repeating the experience all over again.

## Conclusions

At least for now, the Final Rule seems unlikely to come into effect in the near future. Based on the District Court's well-reasoned analysis, it is unlikely that its decision will be overturned on appeal. Of course, only time will tell. Nonetheless, it is likely that the PTO will try other ways to get the authority it needs to adopt the same or similar rules to ease its administrative burden.

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