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News

Patents/Ethics

Panelists Explore Whether Patent Lawyers Need Worry About Sarbanes-Oxley Act

Is the Sarbanes-Oxley Act of 2002 violated if a company's patent counsel, on the instruction of his supervisor, fails to disclose a potentially invalidating prior art reference that is presented to him one day after the company issues a press release celebrating the Patent and Trademark Office's allowance of some patent claims on its blockbuster new virility drug Extensa?

What if the value of the stock then triples, but the retiring company chief--who was eventually told about the prior art--sells his stock, then the rest of the patent claims are rejected when the prior art is later disclosed to the PTO, and the stock plummets? This fictitious hypothetical served as the framework for a moot court debate between two lawyers during the Eighth Annual Richard C. Sughrue Symposium at the University of Akron Law School March 13.

'SEC v. Longevity Corp.'

Abraham C. Reich of Fox Rothschild, Philadelphia, in the role of counsel for the Securities and Exchange Commission, argued that the lawyer was clearly breaching his obligation to report "material violations" of Sarbanes-Oxley "up the ladder" to his superiors in the company.

However, Steven J. Rocci of Woodcock Washburn, Philadelphia--representing "Longevity Corp." - -maintained that the lawyer bore no reporting duty under Sarbanes-Oxley because he did not "appear and practice" before the SEC, as required for subject matter jurisdiction under that statute. The prior art was ultimately disclosed to the PTO in a timely fashion, as required by that agency, Rocci argued.

Under Reich's standards, he said, a company lawyer would have to report to management every PTO office action on thousands of patent applications a year. Patent lawyers should not be required to deal with prior art under a Sarbanes-Oxley standard, Rocci said.

Reich replied that Sarbanes-Oxley applies to all lawyers "transacting any business" with the SEC, "including reporting." According to those terms, he said, if a lawyer has any input on documents

that are filed, or could be filed, with the SEC, the lawyer is deemed to practice with the SEC. In the hypothetical, he noted, the company press release is such a document because it could have found its way into an SEC file based on its potential to affect stock prices.

SEC Materiality Standard Applies

Stepping out of their roles, both Rocci and Reich agreed that the broad reach of ethical obligations under Sarbanes-Oxley probably extends to patent practitioners. The duty to report material information up the corporate ladder under that statute is not measured under Rule 56 of the PTO rules, 37 C.F.R. §1.56, they said, but according to the emerging SEC standard, which asks roughly whether a reasonable investor would consider the information important.

The fact that the attorney in the hypothetical did not consider the prior art reference colorable to patentability is not a valid defense under Sarbanes-Oxley, according to Rocci and Reich.

Nor is the sheer volume of patent documents handled by a company's patent counsel an excuse for ignoring the reporting requirement, Reich stressed. If even one of a company's 3,000 patent applications come the attention of the company officials, they could have a reporting obligation, he said.

In the end, Reich and Rocci said, the issue is the materiality of the information. Compliance with the PTO's standard for prior art disclosures, or even with that agency's general ethical standards and state rules of professional conduct, might not suffice under Sarbanes-Oxley, they warned.

As yet there is no case law offering guidance on the impact of Sarbanes-Oxley on patent practice, Reich and Rocci acknowledged. Given the statute's sweeping guidelines and the high-profile scandals involving inaccurate corporate disclosures, however, the two predicted that Sarbanes-Oxley is sure to affect patent lawyers.

However, adhering to the Sarbanes-Oxley strictures need not be particularly burdensome, Reich said. Although Sarbanes-Oxley represents the first time that ethical obligations have been imposed on lawyers at a federal level, he conceded, those obligations are narrow ones.