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Fast and Furious (Toward Patents): USPTO Issues Final Post-Grant Rules

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On August 14, 2012, the United States Patent and Trademark Office (USPTO) published its final rules for the new post-grant proceedings established last September by the America Invents Act (AIA). The final rules include changes made since the USPTO issued its proposed rules earlier this year. When the final rules take effect on September 16, 2012, it will usher in a new model, as envisioned by the AIA, for challenging patents. These final rules should encourage many wary companies with good prior art to take the plunge and give *inter partes* review a try.

In particular, the new *inter partes* review procedure is designed to be faster than *inter partes* reexamination. The USPTO confirmed that it will abide by the statutory timeline for resolving these cases in one year. Moreover, the new procedure is designed to be more procedurally favorable and cost effective than patent litigation for addressing invalidity based on patents and printed publications. The rules suggest that discovery in *inter partes* review proceedings will be limited, alleviating fears by some that the new USPTO trial procedures might end up resembling district court litigation in cost and complexity.

The final rules (links set forth at the end of the article) address the following new post-grant proceedings in detail:

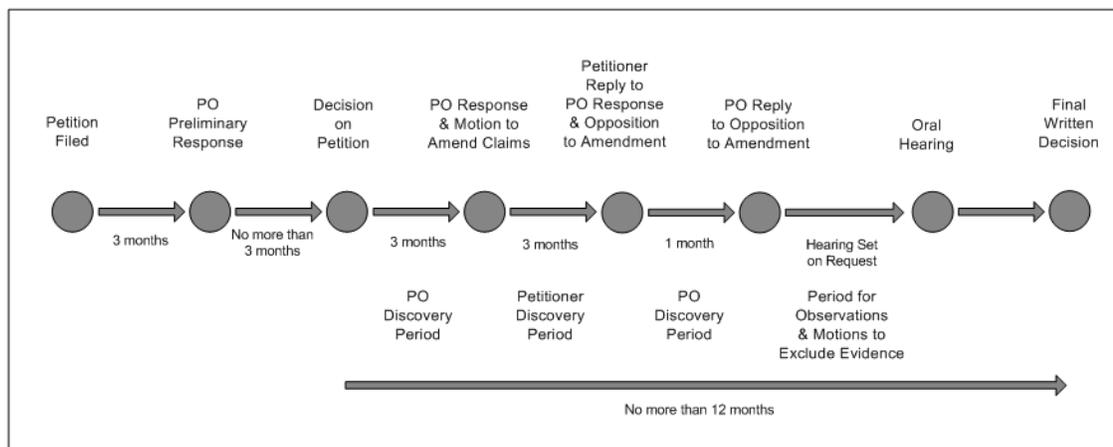
- *Inter partes* review;
- Post-grant review;
- Post-grant review for covered business method patents; and
- Supplemental examination.

Only patents filed on or after March 16, 2013, will be eligible for post-grant review, while *inter partes* review and post-grant review for covered business method patents will be employed as of September 16, 2012. Thus, this alert highlights certain final rules for *inter partes* review and post-grant review of covered business method patents. Please watch for additional alerts, webinars (including a client webinar on August 29), and seminars from Morrison & Foerster to cover other aspects of the final rules. More information can be found at our patent reform landing page: <http://www.mofo.com/patent-reform/>.

INTER PARTES REVIEW: FAST

One of the most repeated criticisms of *inter partes* reexamination is its duration. An *inter partes* reexamination can take more than five years to complete, thereby undermining its statutory purpose as an alternative to litigation. The AIA seeks to address this issue by replacing *inter partes* reexamination with *inter partes* review on September 16, 2012, and statutorily requiring *inter partes* review to be completed within one year after institution by a Patent Trial and Appeal Board (Board). The final rules have sought to implement this statutory vision as reflected in the representative timeline below (reproduced from the USPTO's "Office Patent Trial Practice Guide," which is part of the final rules package).

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This timeline illustrates a mix of statutory requirements and USPTO rules to complete *inter partes* review within 18 months after the filing of a petition. For example, the AIA allows a preliminary response to the petition from the patent owner, but it does not limit the time period for the response.¹ The final rules fill this gap by setting a three-month time period for response, as shown.² The AIA requires that the USPTO then make a decision on the petition within three months after any preliminary response. The final rules accordingly envision the process taking a total of six months, from the filing of the petition to the institution of review.

Moreover, the AIA and the final rules set a one-year period from institution of *inter partes* review to final written decision.³ This one-year period is shown by the arrow at the bottom of the timeline. Thus, *inter partes* review can go from filing to final written decision in 18 months (six months to institute review and 12 months to complete the final determination). The AIA allows the USPTO to extend the one-year period by six months for good cause, and the final rules allow the Board to adjust the timeline in case of joinder.⁴ However, in the comments section of the final rules for implementing *inter partes* review, the USPTO explains that “extensions of the one year period are anticipated to be rare.”⁵

To further ensure that an instituted *inter partes* review proceeds expeditiously, the USPTO has curtailed the patent owner’s ability to amend during review (see timeline at middle providing “Motion to Amend Claims”). Under the AIA, the patent owner is given one opportunity to make amendments, and only a “reasonable number” of substitute claims may be added for each challenged claim.⁶

In response to comments to its proposed rules, the final rules further tighten this requirement by establishing a presumption of only one new claim for each challenged claim.⁷ The patent owner may seek to rebut this presumption by

¹ 35 U.S.C. § 313.

² 37 C.F.R. § 42.107(b).

³ 35 U.S.C. § 316(a)(11); 37 C.F.R. § 42.100(c).

⁴ 35 U.S.C. § 316(a)(11); 37 C.F.R. § 42.100(c).

⁵ 77 F.R. 48,695.

⁶ 35 U.S.C. §§ 316(a)(9), (d)(1).

⁷ 37 C.F.R. § 42.121(a)(3).

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a demonstration of need. The USPTO notes in the comments section that “[a]dding more claims beyond those that are needed to respond to a ground of unpatentability most likely would cause delay, increase the complexity of the review, and place additional burdens on the petitioner and the Board.”⁸ This is in stark contrast to current *inter partes* reexamination practice, in which patent owners have an essentially unlimited right of entry to any number of new claims at the start of the reexamination.

The comments accompanying the rules further encourage the use of conference calls to raise and resolve issues in an expedited manner. According to the comments, this system will allow most procedural issues arising during a proceeding to be handled in a matter of days.⁹ Additionally, the rules require prior Board authorization before entering a motion, and such authorization can be granted by conference call.¹⁰ This practice is an improvement over current *inter partes* reexamination practice, where procedural disputes are typically resolved via petitions that can substantially delay proceedings.

INTER PARTES REVIEW: FURIOUS TOWARD PATENTS

In addition to speed, *inter partes* review under the AIA provides certain procedural advantages that are more favorable than patent litigation with respect to invalidity under § 102 or §103 based on patents and printed publications. The final rules solidify these advantages.

First, in *inter partes* review, there is no presumption of claim validity, and the petitioner has the burden of proving unpatentability only by a preponderance of the evidence.¹¹ In litigation, there is a presumption of claim validity, and invalidity must be shown by a higher clear-and-convincing-evidence standard.¹² This is a meaningful distinction. For example, in *In re Baxter*, the Federal Circuit recently found certain claims to be patentable in litigation, but not patentable in reexamination, due in part to the difference in burden between the two forums.¹³

Second, in *inter partes* review, each claim is given its broadest reasonable construction consistent with the specification.¹⁴ A number of comments to the proposed rules challenged the USPTO’s authority to even define the claim construction standard via a regulation. However, in its comments to the final rules, the USPTO rooted its authority to set the claim construction standard in the AIA’s provisions allowing the USPTO to prescribe regulations, and in 30 or more years of existing Federal Circuit precedents.¹⁵

Third, *inter partes* review will be conducted by a panel of at least three administrative judges.¹⁶ Under the AIA, members of the Board are required by statute to be “persons of competent legal knowledge and scientific ability.”¹⁷ No such

⁸ 77 F.R. 48,705.

⁹ 77 F.R. 48,758.

¹⁰ 37 C.F.R. § 42.20(b); 77 F.R. 48,619.

¹¹ 35 U.S.C. § 316(e); 77 F.R. 48,697.

¹² 35 U.S.C. § 282; 77 F.R. 48,697.

¹³ *In re Baxter Int'l., Inc.*, 678 F.3d 1357, 1364-65 (Fed. Cir. 2012).

¹⁴ 37 C.F.R. § 42.100(b).

¹⁵ 77 F.R. 48,697.

¹⁶ 35 U.S.C. § 6(c).

¹⁷ 35 U.S.C. § 6(a).

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statutory requirement exists for decision makers in patent litigation. Moreover, the final rules evince the USPTO's desire to have the proceedings led by registered patent attorneys. The lead counsel must be a registered practitioner.¹⁸ However, in a nod to the realities of complex patent matters, the Board may recognize counsel *pro hac vice* upon a showing of good cause. Indeed, the USPTO has modified the rules to provide for the following example: “[W]here the lead counsel is a registered practitioner, a motion to appear *pro hac vice* by counsel who is not a registered practitioner may be granted upon showing that counsel is an experienced litigating attorney and has established familiarity with the subject matter at issue in the proceeding.”¹⁹

Aside from the procedural advantages, *inter partes* review will be less expensive than patent litigation. The costs of *inter partes* review can be divided into two categories: fees associated with instituting review, and the legal costs associated with the review. Much has been made about the increase in filing fees in comparison to *inter partes* reexamination. The USPTO did not alter the fee—\$27,200—for instituting review of 1-20 claims.²⁰ However, the USPTO did alter its proposed rules for instituting review of more than 20 claims. Rather than increase fees based on groups of 10 claims in the proposed rules, the USPTO will now increase fees on an individual-claim basis. That is, it will charge a fee of \$600 for each additional challenged claim in *inter partes* review.²¹

In terms of the legal costs associated with the review, the review will provide opportunity for routine discovery and depositions. Routine discovery includes (1) production of any exhibit cited in a paper or testimony; (2) cross-examination of the opposing party's declarants; and (3) relevant information that is inconsistent with a position advanced during the proceeding.²² However, the rules specifically limit any additional discovery in *inter partes* review. Additional discovery is only available on a showing that the requested discovery would be productive under an interests-of-justice standard.²³ The Board expects that authorization under this standard will be limited in practice.²⁴

FAST AND FURIOUS II: POST-GRANT REVIEW FOR COVERED BUSINESS METHOD PATENTS

Perhaps the post-grant proceeding to be employed most initially will be the post-grant review for covered business method patents. The proceeding may provide the most petitioner-friendly avenue for challenging a patent of all the other post-grant proceedings. In addition to patents and printed publications, review under this proceeding may also be instituted based on evidence of knowledge or use prior to the alleged invention, thereby expanding the universe of eligible prior art compared to *inter partes* review.²⁵ Also, the AIA specifically sets a standard for staying an infringement action based on the proceeding, and a decision whether to stay is subject to immediate interlocutory appeal to the Federal Circuit.²⁶ Finally, the scope of the estoppel for this proceeding is less than that for *inter partes* review. Only grounds

¹⁸ 37 C.F.R. § 42.10(c).

¹⁹ 37 C.F.R. § 42.10(c).

²⁰ 37 C.F.R. § 42.15(a).

²¹ 37 C.F.R. §§ 42.15(a), 42.103.

²² 37 C.F.R. § 42.51(b)(1).

²³ 37 C.F.R. § 42.51(b)(2).

²⁴ 77 F.R. 48,719.

²⁵ AIA § 18(a)(1)(C).

²⁶ AIA § 18(b).

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actually raised during the proceeding give rise to estoppel during litigation.²⁷

This proceeding, however, has two specific qualifications that may limit its widespread use. First, it is only available to parties that have been sued or charged with infringement.²⁸ Prior to the USPTO's rules, the exact scope of "charged with" infringement was unclear. The final rules narrow the scope by clarifying that a party has been "charged with" infringement if there exists "a real and substantial controversy regarding infringement of a covered business method patent . . . such that the petitioner would have standing to bring a declaratory judgment action in Federal court."²⁹

Second, according to the final rules, petitions for the proceeding will only be granted for certain *non-technological* business method patents that claim a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service.³⁰ Apparently all that is required is one qualifying claim to institute review of the entire patent. According to the USPTO, "[a] patent having one or more claims directed to a covered business method is a covered business method patent for purposes of the review, even if the patent includes additional claims" and the "AIA does not limit the claims that may be challenged to those that are directed specifically to the covered business method patent."³¹

The final rules, however, provide little clarification on the definition of a covered business method patent. The USPTO indicates that the legislative history tends to support "the notion that 'financial product or service' should be interpreted broadly" and "is not limited to the products or services of the financial services industry."³² That said, the USPTO will determine what constitutes a *technological* invention on a case-by-case basis, considering whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art, and solves a technical problem using a technical solution.³³ How the USPTO proceeds in applying these rules will likely make or break the viability of this proceeding.

In conclusion, the USPTO has taken an important step towards fulfilling the statutory vision of the AIA to provide post-grant options that are expeditious, cost effective, and efficient in determining the validity of patents. Now it is the public's turn to take the next step.

²⁷ AIA § 18(a)(1)(D).

²⁸ AIA § 18(a)(1)(B).

²⁹ 37 C.F.R. § 42.302(a).

³⁰ AIA § 18(d)(1); 37 C.F.R. § 42.301(a).

³¹ 77 F.R. 48709 and 48736.

³² 77 F.R. 48735-36.

³³ 37 C.F.R. § 42.301(b).

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FINAL RULES PACKAGES

- [Inter Partes Review Proceedings, Post-Grant Review Proceedings, and Transitional Program for Covered Business Method Patents](https://federalregister.gov/a/2012-17906) (https://federalregister.gov/a/2012-17906)
- [Definitions of Covered Business Method Patent and Technological Invention](https://federalregister.gov/a/2012-17904) (https://federalregister.gov/a/2012-17904)
- [Office Patent Trial Practice Guide](https://federalregister.gov/a/2012-17908) (https://federalregister.gov/a/2012-17908)
- [Rules of Practice for Trials Before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions](https://federalregister.gov/a/2012-17900) (https://federalregister.gov/a/2012-17900)
- [Supplemental Examination Provisions](https://federalregister.gov/a/2012-17917) (https://federalregister.gov/a/2012-17917)

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