

IP Litigation Alert: PTO Publishes Final Rules for Contested Patent Cases

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Today, the U.S. Patent and Trademark Office (“PTO”) published final rules for handling contested patent cases, such as those permitting third parties to initiate post-grant review of patents based on prior art. The PTO has also published final rules in a number of other areas mandated by last year’s America Invents Act (“AIA”), which we will summarize in an upcoming edition of the Fenwick & West IP Bulletin.

Rules of Practice for PTAB Trials

Pursuant to the AIA, the Patent Trial and Appeal Board (“PTAB”) will replace the existing Board of Patent Appeals and Interferences. The AIA assigns to the PTAB the following duties: (1) to review adverse decisions of examiners upon an application for patent; (2) to review appeals of reexaminations; (3) to conduct derivation proceedings; and (4) to conduct *inter partes* and post-grant reviews. AIA § 7. The PTO has now promulgated a consolidated set of rules governing trial practice before the PTAB; these rules, to be enacted under 37 C.F.R. § 42, apply to *inter partes* review, post-grant review, the transitional program for covered business method patents, and derivation proceedings. The PTO has also promulgated consolidated rules under 37 C.F.R. § 90 governing judicial review of PTAB decisions.

Section 42 in its final form mandates that the default standard in contested cases is to be a “preponderance of the evidence” standard. Some of the proposed procedural constraints, such as page limitations on petitions and responses, have been loosened in the final rulemaking, and the PTO has granted the PTAB greater discretion regarding trial management. This is both good and bad; while it allows parties to argue for case-specific modifications, it also leaves them with less initial guidance on how a trial is likely to play out.

The PTO’s proposed fees for *inter partes* review, post-grant review, and covered business method patent review were widely criticized as being unworkably high, but the PTO made only a minor concession in this area. Specifically, the PTO kept the final cost of the

inter partes procedure at a base level of \$27,200 (about three times the cost of the *inter partes* reexamination it replaces), but allowed an incremental increase of \$600 per claim where over 20 claims are contested. The proposed rulemaking had applied a tiered system based on groups of ten additional claims. The final rules also require that if any contested claim is dependent upon an uncontested independent claim, a further charge is made for the independent claim, as it will need to be analyzed as well. Nor was the PTO deterred from implementing its proposed fees increase for post-grant review and business method patent review — \$35,800 for up to 20 claims and \$800 for each additional claim. Thus, these procedures are unlikely to be used very often by smaller companies or individuals that cannot afford these fees.

The PTO also took a fairly strict stance regarding who can participate in such proceedings. The PTO is requiring that parties be represented by a PTO-registered practitioner as lead counsel, and will only allow *pro hac vice* representation by unregistered counsel upon a showing of good cause. This will be a significant limitation for those litigation firms that do not have patent attorneys/agents on staff, and we expect a scramble over the next months as such firms seek to develop relationships with registered practitioners.

It will take some time for practitioners to familiarize themselves with the dozens of completely new rules of practice for PTAB proceedings. Thankfully, the PTO has published a Trial Practice Guide that “is intended to advise the public on the general framework of the rules, including the structure and times for taking action in each of the new proceedings.” The Guide provides a plain English explanation of the AIA requirements relating to the proceedings, an overview of the rules and how they work together, as well as some commentary regarding issues that the PTO expects to arise under this new forum. Because the PTAB has been given significant discretion to run these proceedings, such guidance is likely to be heavily relied upon. For example, with regard to the PTO’s requirement that lead counsel be a registered practitioner, the Guide states,

“The Office expects that lead counsel will, and back-up counsel may, participate in all hearings and conference calls with the Board and will sign all papers submitted in the proceeding. . . . Actions not conducted before the Office (e.g., taking of deposition) may be conducted by lead or back-up counsel.”

While some of the Guide’s statements are largely procedural, they may have significant, if not outcome-determinative, impact. For instance, with regard to the statutory requirement that the proceedings be completed within a year in most cases, the Guide states:

[T]he Board may decline to institute a proceeding where the Board determines that it could not complete the proceeding timely. Specifically, the Board could exercise its discretion to decline to institute a petition that seeks review of several hundred claims based upon a thousand references and the patent owner demonstrates that a determination of patentability would require testimony of dozens of non-party controlled witnesses in foreign countries for which the testimony would need to be compelled.

For those interested in a general overview of the new AIA contested cases framework, the Guide is an excellent starting point. The Guide can be found at <http://www.gpo.gov/fdsys/pkg/FR-2012-08-14/pdf/2012-17908.pdf>.

Inter Partes and Post-Grant Review

The AIA created new *inter partes* and post-grant review proceedings that take effect on September 16, 2012 and that are conducted before the PTAB. The *inter partes* review provisions apply to any patent that issued before, on, or after September 16, 2012. The post-grant review provisions generally apply to patents issuing from patent applications subject to the first-inventor-to-file provisions of the AIA, which come into force on March 16, 2013.

Many aspects of the *inter partes* review process are set forth in the AIA itself. For example, the *inter partes* petitioner (anyone not the owner of the patent) may request that the PTAB cancel one or more claims of a patent only on a ground that could be raised under

35 U.S.C. §§ 102 or 103, and only on the basis of prior art consisting of patents or printed publications. The petitioner has the burden of proving unpatentability by a preponderance of the evidence. A petition for *inter partes* review may be filed after the later of either: (1) nine months after the grant of a patent or issuance of a reissue of a patent; or (2) if a post-grant review is instituted, the termination of that post-grant review.

Once a petition for *inter partes* review is filed, the patent owner has the right to file a preliminary response that sets forth reasons why no *inter partes* review should be initiated. The PTO may not initiate an *inter partes* review unless it determines that there is a reasonable likelihood that the petitioner will prevail with respect to at least one of the challenged claims. The PTO must grant or deny the petition within three months after: (1) receiving a preliminary response to the petition; or (2) if no preliminary response is filed, the last date on which such response may be filed. The PTO’s decision whether to initiate an *inter partes* review is final and not appealable.

During *inter partes* review, the patent owner may file one motion to amend the patent by (1) canceling any challenged patent claims and (2) for each challenged claim, proposing a reasonable number of substitute claims. Amendments to the claims may not enlarge the scope of the claims or introduce new matter. Additional motions to amend may be permitted at the joint request of the petitioner and patent owner to advance a settlement or as permitted by regulations prescribed by the PTO. Any party to the *inter partes* review may appeal the final written opinion of the PTAB. When the PTAB issues a final written opinion, the petitioner, real party-in-interest, or privy of the petitioner may not request or maintain a proceeding before the PTO with respect to any reviewed claim on any ground that the petitioner raised or could have raised during the *inter partes* review. Estoppel also applies in certain civil actions and proceedings before the United States International Trade Commission.

Post-grant review is available only for nine months after a patent issues and provides broader grounds for challenge. Not only can the patent be challenged based on prior art consisting of patents or printed publications, it can be challenged on numerous other grounds as well, including essentially all of the grounds typically asserted as a defense to patent infringement under

sections 101, 102, 103, and 112 of the patent statute with the exception of best mode. Further, the standard for review is different; review may be authorized if the Director determines that the information presented in a petition, if not rebutted, “would demonstrate that it is more likely than not that at least one of the claims challenged in the petition is unpatentable,” or if “the petition raises a novel or unsettled legal question that is important to other patents or patent applications.”

The PTO’s final rules relating to *inter partes* and post-grant review differ from the proposed rules published in February 2012 in several respects. For example, the proposed rules provided that an *inter partes* or post-grant review proceeding must be concluded within one year, except that a six-month extension was available for good cause. The final rules clarify that the one-year period for completing the review may be adjusted by the PTAB in the case of joinder.

The proposed rules required the petition for *inter partes* or post-grant review to include a certification of standing (the patent is subject to review and the petitioner is not barred or estopped from requesting review) and an identification of the challenge, including the claim(s), the specific statutory grounds on which the challenge is based, how each challenged claim is to be construed, how each construed claim is unpatentable, and the exhibit number(s) of the supporting evidence. The final rules include these same provisions and further clarify that the petitioner must certify that it is not estopped from requesting review of the challenged claims (as opposed to the patent) on the grounds identified in the petition.

The proposed rules allowed the petitioner to serve the patent owner at the correspondence address of record for the patent at issue or at any other address the petitioner knows is likely to effect service, but required the petitioner to contact the PTAB to discuss alternate modes of service if the two modes of service identified in the rule were not effective. The final rule eliminates the requirement that the petitioner contact the PTAB to discuss alternate routes of service and provides that: (1) the petitioner may serve the patent owner electronically upon agreement of the parties, (2) personal service is not required, and (3) service may be by EXPRESS MAIL® or by means at least as fast and reliable as EXPRESS MAIL®.

Under the PTO’s proposed rules, the patent owner had two months from the notice assigning the petition a filing date to file a preliminary response setting forth the reasons why an *inter partes* or post-grant review should not be initiated. Likewise, if the PTAB’s order granting review did not provide a due date for the patent owner’s response, the proposed rules provided that the default due date was two months from the date the review was instituted. The final rules extend the two-month time period for both the preliminary response and the default time period for the patent-owner response to three months.

The final rules still allow the patent owner to file motions to amend the challenged claims. Like the proposed rules, the final rules provide that a motion to amend may be denied where (1) the amendment does not respond to a ground of unpatentability involved in the proceeding or (2) the amendment seeks to enlarge the scope of the claims or introduce new subject matter. However, the final rule allows a patent owner to file one motion to amend after conferring with the PTAB only if the motion is filed no later than the filing of the patent owner’s response. The final rules allow the PTAB to authorize additional motions to amend only where there is a good-cause showing or a joint request of the petitioner and patent owner to advance a settlement, and instructs the PTAB to consider whether the petitioner has submitted supplemental information after the time period that the patent owner had to file a motion to amend. The final rules also state that a reasonable number of substitute claims is presumed to be one substitute claim per challenged claim, which may be rebutted by a demonstration of need.

With respect to joinder of proceedings regarding the same patent, the proposed rules published in February provided that the PTAB could stay, transfer, consolidate or terminate another matter that was pending before the PTO and that involved the same patent. The final rules additionally provide that the patent owner or petitioner may request joinder as long as the request is filed as a motion no later than one month after the institution date of any *inter partes* or post-grant review for which joinder is requested. The final rule also clarifies that, for *inter partes* review, the time period set forth in 37 C.F.R. § 42.101(b) (providing that the petition must be filed within one year of being served with a complaint alleging patent infringement) does not apply when the petition is accompanied by a request for joinder.

The final and proposed rules also differ with respect to filing supplemental information. In particular, the proposed rules provided that a petitioner could request authorization to file a motion identifying supplemental information relevant to the ground for which the trial had been instituted if the request was made within one month of the review being instituted. The final rules further provide that a petitioner who seeks to submit late information, or information that is not relevant to a claim under review, must show why the information reasonably could not have been obtained earlier and that consideration of the information is in the interests-of-justice.

The final rules have not significantly changed discovery practice under PTAB proceedings relative to what was proposed. Routine discovery is defined slightly differently, the parties are given more flexibility to agree to scope of discovery, international deposition procedures have been made more flexible, and some of the details regarding “information that is inconsistent with a position” advanced by a party have been modified. However, the overall structure of discovery, which is far broader than the PTO has used in the past for any common proceeding, remains as it was previously proposed.

Another slight change was made in the final rules with respect to the manner in which a patent owner or applicant is estopped from reasserting, through a new or amended claim, subject matter that was denied protection during a PTAB proceeding.

The PTO received numerous comments regarding the proposed rule that the claims in an *inter partes* or post-grant review be given their broadest reasonable construction in light of the patent specification. This differs from the standard used in courts, where there is no attempt to seek the *broadest* reasonable construction. The PTO has been steadfastly asserting that the standard it uses, though admittedly different than that used for the same purpose in courts, is not only sensible but required. The PTO’s position remained unchanged in the final rules. The PTO continues to believe that a broader interpretation is warranted because unlike a proceeding in a court, a proceeding before the PTO gives the patent owner an opportunity to amend claims. In its response to the critical comments, the PTO stated, “Indeed, the Federal Circuit has acknowledged the longstanding practice that the

patent system has two claim construction standards, the ‘broadest reasonable interpretation’ standard applied to Office’s [sic] proceedings, and that used by district courts in actions involving invalidity and infringement issues.” Now that the AIA has provided additional mechanisms for potential infringement defendants to challenge patents, we expect to see some forum shopping based on which standard a party believes will best suit its needs in a particular case.

Transitional Program for Covered Business Method Patents

As explained above, the AIA creates a post-grant review process for all granted patents, but generally limits the window for bringing such a challenge to nine months post-issuance. Section 18 of the AIA, however, allows post-grant review of certain “covered business method patents” so long as the challenge is brought between September 16, 2012 and September 16, 2020.

The AIA defines a “covered business method patent” as “a patent that claims 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, except that the term does not include patents for technological inventions.” Although the transitional program generally employs the standards and procedures of post-grant review, certain exceptions apply. First, transitional review of covered business method patents may only be sought by a party that has been sued for or charged with infringement of the patent at issue. Second, for challenges based on §§ 102 and 103, only a subset of prior art is available to support the petition, namely: (1) prior art described in pre-AIA § 102(a), or (2) prior art that discloses the invention more than one year before the U.S. patent application date and would be described by pre-AIA § 102(a) if the disclosure had been made by another before the invention by the patentee. And third, if a final written decision issues, the petitioner is estopped from later asserting that the challenged claims are invalid on any ground that the petitioner raised during the transitional proceeding — estoppel does *not* extend to grounds that *could have been* raised during the transitional proceeding.

Although the AIA excludes “technological inventions” from the definition of a “covered business method patent,” it called upon the PTO to define what

constitutes a “technological invention.” Public comments on the PTO’s proposed rules largely criticized the PTO for defining that term using variants on the word “technological” three times. Nonetheless, the PTO has maintained its position in the final rules, and suggested that future guidelines and case law will be used to better define which patents will be subject to this further level of review. The new rules promulgated by the PTO state that the following will be considered in determining whether a patent is for a technological invention: “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 while using a technical solution.” Notably, the PTO’s commentary on the final rules states general agreement with the notion that the definition of a covered business method patent should be broadly construed, so we expect to see a number of third parties attempt to define the outer boundaries of this definition starting about a month from now.

The procedure for covered business method patents is particularly interesting because it provides a new PTO-based forum for attempting to invalidate patents in a manner that was not previously possible. As discussed above, the PTO’s interpretation of patent claims is expressly broader than that used by courts, so more patents may be subject to challenge than the prior case law would have suggested. Further, as noted above the AIA includes a requirement that such challenge may only be brought by one who has been sued or “charged with infringement.” In response to public comments, the PTO provided some clarification as to what “charged with infringement” means, stating that it is found when “a real and substantial controversy regarding infringement of a covered business method patent exists such that the petitioner would have standing to bring a declaratory judgment action in Federal Court.” This should significantly reduce collateral litigation that would have been brought if the term “charged with infringement” had been left without interpretation.

Notably, these new procedures begin to apply on September 16, 2012, and can then be applied immediately against newly issued patents until the post-grant provisions come into play (after which time the post-grant procedure will impose a nine-month bar to bringing a challenge based on the transitional program for covered business method patents).

Other AIA-related Developments

The PTO rules also address new “derivation proceedings” applicable after the transition to “first inventor to file” provisions on March 16, 2013. As the time frame for these provisions nears, we will report on the ongoing developments regarding derivation proceedings.

As mentioned above, this alert only addresses the final rules implementing AIA provisions for contested patent cases. Other AIA final rules and related developments will be addressed in a forthcoming edition of the Fenwick & West IP Bulletin.

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