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**Appendix B Rules of Practice Before the Board
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Foreword

by Hon. Gerald J. Mossinghoff
& Stephen G. Kunin

In our global knowledge-based economy, technological innovation is key to the United States' economic growth and development. Across all fields of technology, the United States is currently without peer with respect to rate of innovation. That results in substantial part from the fact that the United States has the most effective patent system in the world, measured in terms of the breadth of both its geographic and economic scope and the variety of the technologies protected. The attention that the U.S. patent system currently enjoys—in industry and academia and politically within the executive branch and in Congress—is a direct result of the importance of the U.S. patent system to this country's technological, economic, and political leadership.

President Lincoln said that the U.S. patent system “added the fuel of interest to the fire of genius.” As the only U.S. president who received a patent, Lincoln understood how U.S. patents served well their constitutional purpose of promoting the “Progress of . . . useful Arts” or, in today's lexicon, fostering the creation and use of cutting-edge technology. The importance of an efficient and effective U.S. patent system to the high-technology industry worldwide is reflected in many indicia, but perhaps none are more striking than the numbers themselves. In 1981, there were 114,710 patent applications filed and 71,010 U.S. patents granted. Three decades later, in 2011, there were 535,188 applications filed and 245,861 patents granted—more than a four-fold increase. But there is real concern that with the dramatic increase in the number of patent applications filed and patents granted—and with the influx of new and unavoidably inexperienced examiners hired to handle the workload—compromises to patent quality may be inevitable.

It is our view that patent examiners are, as a general rule, dedicated and effective professionals who—in the necessarily limited time available to them—do an extraordinarily good job of searching and applying relevant prior art to the claims of the applications being examined. Their capability in this task has been strengthened immeasurably by the addition of automated search tools and global access to electronic databases of technical information. By the very

nature of the breadth of prior art—including, for example, unpublished commercial activity—examiners are nevertheless rarely aware of *all* of the relevant prior art or public uses or on sale bars in any given case.

Over the years, two forms of patent reexamination have been enacted to permit any person to raise new questions of patentability of a claim of an issued patent. Major patent systems of the world—notably, the European and Japanese patent systems, along with others, including the British and German patent systems—all have forms of administrative post-grant procedures during which the validity of a patent may be challenged.

In the Leahy-Smith America Invents Act (AIA), signed by President Obama on September 16, 2011,¹ Congress enacted a chapter on post-grant review (PGR) of granted patents (including a special flavor of PGR applicable to business method patents), and it replaced the existing *inter partes* examination system with a new *inter partes* review (IPR) of granted patents. The AIA itself represents the most complete revision of the patent law since the Patent Act of 1952.

Concern that the U.S. patent system was not keeping up structurally with the domestic technological and economic environment led to three major studies on the patent system in the early years of this century:

- a 2003 study entitled “To Promote Innovations: The Proper Balance of Competition and Patent Law and Policy” by the Federal Trade Commission;
- a 2004 study by the National Research Council of the National Academies on “A Patent System for the 21st Century”; and
- a 2005 study of the National Academy of Public Administration on “U.S. Patent and Trademark Office: Transforming to Meet the Challenges of the 21st Century.”

Each of these studies resulted in a recommendation that the Congress establish a new procedure for third parties to administratively challenge the validity of issued U.S. patents.

The National Research Council recommended:

Congress should seriously consider legislation creating a procedure for third parties to challenge patents after their issuance in a proceeding before administrative patent judges of the USPTO. The grounds for a challenge could be any of the statutory standards—novelty, utility, non-obviousness, disclosure, or

1. Pub. L. No. 112–29 (2011) [hereinafter AIA].

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enablement—or even the case law proscription on patenting abstract ideas and natural phenomena. The time, cost, and other characteristics of this proceeding should make it an attractive alternative to litigation to resolve patent validity questions both for private disputants and for federal district courts. The courts could more productively focus their attention on patent infringement issues if they were able to refer validity questions to an Open Review proceeding.

The Federal Trade Commission made a similar recommendation:

Because existing means for challenging questionable patents are inadequate, we recommend an administrative procedure for post-grant review and opposition that allows for meaningful challenges to patent validity short of federal court litigation. To be meaningful, the post-grant review should be allowed to address important patentability issues. The review petitioner should be required to make a suitable threshold showing. An administrative patent judge should preside over the proceeding, which should allow cross-examination and carefully circumscribed discovery, and which should be subject to a time limit and the use of appropriate sanctions authority. Limitations should be established to protect against undue delay in requesting post-grant review and against harassment through multiple petitions for review.

The National Academy of Public Administration echoed some of the same sentiments:

Because of the many inherent disincentives with the existing reexamination process, few third parties have used *inter partes* reexamination as a vehicle for challenging patentability decisions. A post-grant review process that incorporates adversarial aspects and addresses concerns about the existing estoppel standard could provide a relatively low-cost option for third parties who want to challenge patentability decisions. Through its use, it could provide more information on issues related to patentability than is available through the current system, thereby helping improve patent quality in the long term.

The Academy Panel believes that some method of post-grant review will permit an administrative process to resolve many issues that now go to litigation. Litigation can cost from \$100,000 to \$3 million or significantly more (not including any awards a court might make). The shorter timeframe and reduced costs of a post-grant review system should benefit patent holders and challengers.

At the time of enactment of the AIA, there were two types of reexaminations:

- *ex parte* reexamination, established in the USPTO in 1981,² and
- *inter partes* reexamination, established in the USPTO in 1999.³

Common to both reexamination systems are that (1) they are applicable to in-force granted patents,⁴ and (2) the grounds for reexamination are limited to prior patents and publications. Other grounds for invalidating a patent—*e.g.*, prior public use, prior sales, or lack of enablement—are excluded. As of June 30, 2012, 10,755 *ex parte* reexaminations and 1,433 *inter partes* reexaminations have been docketed.

Not long after *ex parte* reexamination was established, it was challenged as amounting to an unconstitutional taking of vested property without due process under the Fifth Amendment and as a violation of the Seventh Amendment. In *Patlex v. Mossinghoff*,⁵ the Federal Circuit upheld the constitutionality of the reexamination process in these terms:

In serving the public purpose of the improved administration of law by the government, the reexamination statute was considered to be a significant improvement in the patent system. We view the reexamination statute as of the class of “curative” statutes, designed to cure defects in an administrative system. Curative statutes have received relatively favored treatment from the courts even when applied retroactively.

* * *

We conclude, as did the district court, that the overriding public purposes Congress articulated in enacting the reexamination law with retroactive effect are entitled to great weight, and that Congress did not act in an arbitrary and irrational way to achieve its desired purposes. We affirm the district court in upholding the validity of the retroactive statute against Gould’s challenge under the Fifth Amendment.

* * *

2. Pub. L. No. 96-517 (1981).
 3. Pub. L. No. 106-113 (1999).
 4. *Inter partes* reexamination is limited to patents based on applications filed on or after November 29, 1999.
 5. *Patlex v. Mossinghoff*, 758 F.2d 594 (Fed. Cir. 1985).

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The extensive jurisprudence interpreting and applying the Seventh Amendment and Article III supports our conclusion, affirming that of the district court, that Gould has not suffered a constitutional deprivation of any rights under the Amendment or Article by virtue of either the postponement of the exercise of these rights, or by interposition of reexamination.⁶

Any similar challenges to *inter partes* review or post-grant review, in our view, will be decided along the same lines as that formulated in *Patlex v. Mossinghoff*.

Two major issues facing Congress, and resolved by the AIA, were:

- (1) if post-grant review was to be established, what grounds would be applicable; and
- (2) what U.S. patents would be subject to post-grant review.

Regarding the second issue, the debate centered around how many opportunities, or “windows,” a challenger would have to initiate a post-grant review. With the “one-window” approach, a granted patent would be subject to post-grant review only during a limited window or period of time—*e.g.*, one year or less—after it is granted. Under a “two-window” approach, a patent would be subject to post-grant review during the first window *and* later if the validity of the patent were to be challenged, for example, during litigation.

The one-window approach—with a nine-month duration—was adopted by Congress in the AIA and limited to patents that are filed under the new first-inventor-to-file system. This one-window approach has the advantage of avoiding a possible avalanche of requests for post-grant review, since the provision would only apply to patents as they are granted, and not immediately to all in-force patents. At the same time, Congress replaced *inter partes* reexamination with a new *inter partes* review, or IPR. This approach has the advantage of establishing a post-grant opposition procedure during the first window and making IPR look somewhat more like the former *inter partes* reexamination procedure, albeit as improved by the AIA, during the life of U.S. patents. At the time, this was referred to as the “great compromise” on post-issuance patent procedures.

In summary, after the effective date of the AIA post-grant provisions, there exist four post-issuance patent procedures:

6. *Id.* at 603–05.

- (1) *Ex parte* reexamination, implemented by the USPTO's Central Reexamination Unit (CRU), applicable to all in-force patents without change from current practice.
- (2) *Inter partes* review, implemented by the newly established Patent Trial and Appeal Board (PTAB) and applicable to all patents in force on or after September 16, 2012.
- (3) Post-grant review, also implemented by the PTAB and capable of being triggered only during the first nine months after grant of patents filed under the first-inventor-to-file procedures established by the AIA.
- (4) Transitional Program for Covered Business Methods patents, likewise implemented by the PTAB and applicable to patents directed to "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."

Procedures (1) and (2) will be limited to art that constitutes prior patents and publications. Post-grant review will include all grounds (except for best mode) on which a U.S. patent may be held to be invalid, going beyond prior patents and publications. The Transitional Program for Covered Business Methods has certain limitations on the types of prior art applicable to first-to-invent patents that can be raised during the proceedings and sunsets in the year 2020.

In urging enactment of the AIA in the U.S. Senate, Senator Patrick J. Leahy, the principal sponsor of the bill and Chairman of the Senate Judiciary Committee, stated:

The America Invents Act will keep America in its longstanding position at the pinnacle of innovation. This bill will establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs, while making sure no party's access to court is denied.

Similarly, the House of Representatives Committee Report noted that:

The voices heard during the debate over changes to the patent law have . . . focused the Committee's attention on the value of harmonizing our system for granting patents with the best parts of other major patent systems throughout the industrialized world for the benefit of U.S. patent holders; improving patent

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quality and providing a more efficient system for challenging patents that should not have issued; and reducing unwarranted litigation costs and inconsistent damage awards.⁷

This treatise discusses in detail the three new post-issuance patent procedures adopted by the AIA, with a major emphasis on the *inter partes* review. The post-grant review procedures will be not be available for patents issued prior to about 2014, and the Transitional Program for Covered Business Methods will be applicable only to patents directed to specific subject matter other than a technological invention used in a financial product or service. Accordingly, we believe that petitions for *inter partes* review will greatly outnumber petitions for the other types of review at least for the first several years of practice under the AIA.

The *inter partes* review proceedings will have been available to third-party requesters since September 16, 2012, to challenge the validity of any patents in force on the basis of patents and printed publications. IPR proceedings are contested proceedings that are adjudicated by the PTAB within twelve to eighteen months once the proceedings have been ordered. The threshold requirement for instituting the proceedings is whether the petitioner is likely to succeed in proving unpatentability of at least one patent claim. The proceedings will lead to a final written decision after an oral hearing that has an estoppel effect in litigation against the third-party challenger who is unsuccessful in establishing the unpatentability of challenged patent claims. The actions taken in the review will become effectuated through the issuance of a review certificate. The PTAB decision is only appealable to the Federal Circuit. It is unclear whether the statutory estoppel will be vacated if the third-party requester is successful in the appeal. The rapidity of the process will encourage district court judges in concurrent litigation proceedings to grant stays of the litigation pending the outcome of the *inter partes* review.

The new *inter partes* review proceedings under the America Invents Act addresses many of the concerns presented by the *inter partes* reexamination proceedings. The *inter partes* review must be filed before any declaratory judgment action filed by the petitioner or real party in interest; or within one year of the petitioner or real party in interest being sued for infringement on the patent; and in any event no earlier than nine months after the issuance or reissuance of the patent and no earlier than the termination of a post-grant review proceeding for the patent. The *inter partes* review proceedings will

7. H.R. REP. NO. 112-98, at 39–40.

begin at the PTAB and avoid the delays associated with reexaminations before the Central Reexamination Unit that occur prior to an appeal. Because the multiple years of delay associated with *inter partes* reexamination will be eliminated in *inter partes* review, courts may be more inclined to grant stays of the litigation. In *inter partes* reexamination the estoppel effect had no practical effect on concurrent litigation, because it did not attach until issuance of the reexamination certificate. In IPR, however, the estoppel attaches upon issuance of the final written decision of the PTAB and that estoppel will be effective for both civil actions and International Trade Commission proceedings. The estoppel will apply not only to the requester, but to the real party in interest. Also, because the threshold to initiate *inter partes* review has been raised to a “reasonable likelihood of prevailing” standard and patent owners will be permitted to file preliminary responses setting forth reasons why no *inter partes* review should be instituted based upon the failure of the petition to meet any of the IPR requirements, it is expected that grant rate will be lower. There will no longer be a prohibition against challenging patents granted on applications filed prior to November 29, 1999. IPR proceedings may be terminated by settlement, although the PTAB may in its discretion proceed to final written decision.

A patent owner response once the proceedings are instituted may include factual evidence and expert opinions. The patent owner will be permitted to amend, cancel, and propose a reasonable number of substitute claims. However, if such new or amended claims raise non-prior art issues such as enlarging the scope of the original claims, adding new matter, indefiniteness, etc., it remains to be seen whether such amendments will be entered and, if so, whether non-prior art unpatentability findings will be made by the PTAB.

This treatise guides readers through the process of successfully prosecuting or defending a post-grant proceeding before the PTAB. The talented members of the Oblon Spivak patents post-grant team provide this treatise as a service to the firm’s clients and those who are avid readers of the firm’s patentspostgrant.com blog.

Chapters 16 and 17 address post-grant review and the transitional program for covered business method patents, respectively, in somewhat less detail than the earlier chapters treat *inter partes* review. As noted above, post-grant review procedures will not be initiated until 2014 or perhaps later, and experience gained in implementing IPR will likely play a role in refining those for PGR. The transitional program for covered business method patents is governed by many of the same rules as IPR and will apply to a relatively small subset of issued patents.

Foreword

The very real incentives of the U.S. patent system for the creation, disclosure, and use of cutting-edge technology have never been more apparent. The major challenge to the leading patent offices of the world is to keep pace with exponentially increasing workloads. The quality of granted patents should not be permitted to suffer as a result of (1) increasing workloads or (2) the inevitable move to patent inventions in new pioneering areas. Major patent offices of the world have established some form of post-grant review of granted patents, and these procedures have worked well. The new *inter partes* review and post-grant review procedures established by AIA will permit industrial and academic experts to participate in the ultimate decision to confirm or not to confirm a granted patent. This will provide the recognized experts at the PTO with an entirely new and effective capability to ensure that only truly deserving inventions received their constitutional due. In turn, that will provide important assurances to the public on the quality of U.S. patents granted in a system in which anything under the sun created by humans—and inventive—can be patented.

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