

# New York Law Journal

## GC New York

WWW.NYLJ.COM

VOLUME 247—NO. 90

An **ALM** Publication

THURSDAY, OCTOBER 11, 2012

### PATENT PROCEEDINGS

# Final Patent Rules Quell Jitters Over Post-Grant Proceedings



By  
**Dorothy R. Auth**

A bedrock principle of the U.S. patent system is the statutory presumption of the validity enjoyed by every issued U.S. patent. An inventor's decision to take the long and costly journey to reveal the details of his or her invention to the public is done in exchange for the promise that the invention can be enforced against infringers for the life of the patent. Thomas Jefferson, who was instrumental in establishing the U.S. Patent Office and a significant inventor himself, saw this grant of protection to the inventor as a way to stimulate both the process of invention and the American economy by providing an equitable means for inventors to learn and build from what others had accomplished previously. When patent disputes arise, the issued patent's validity is typically challenged. Heretofore, those challenges were almost exclusively decided in U.S. district courts which has become another long and costly journey for both the inventor—as well as for the party claiming patent invalidity.

The America Invents Act of 2011 (AIA) sought to put in place a system of checks and balances to provide a more efficient forum for entertaining patent validity challenges than district court actions.<sup>1</sup> The AIA was, in fact, a legislative response to the view that patenting has become overly dominant in new high-technology areas, and there needs to be a viable alternative to the U.S. district court system for determining post-grant patent validity challenges.

The argument the legislators sought to address was that for many the use of the U.S. district court system as the mediating body has become counter-productive to the original aims of the patent system because the cost is so prohibitive as to allow invalid, broadly based, claims in issued patents to exclude others from practicing in those areas without the threat of infringement. In this sense, the patent system was slowing down progress by not allowing implementation of technologies without exorbitant expense. A more streamlined method for challenging patents was needed. At the same time, the new law sought to address concerns that these new validity actions would not allow excessive, unmerited



The AIA and the USPTO's final rules attempt to prevent overlap between the two new proceedings and district court civil actions to prevent multiple attacks by a patent challenger in different tribunals.

attacks on the validity of a patent.

On Aug. 14, 2012, the U.S. Patent and Trademark Office published rules detailing the procedural framework for implementation of the AIA which had been enacted into law last year. In putting these rules in place, the USPTO responded to almost 400 comments from practitioners, many of which were directed to when and who can bring petitions for such proceedings. The new rules detail the steps for two alternative means for mounting challenges to issued patents: the Post-Grant Review and Inter Partes Review proceedings. Unlike the current *ex parte* reexamination procedure, these new proceedings allow the third-party challenger to be involved throughout the proceeding.<sup>2</sup> This article will discuss the provisions of the AIA, the final rules and the USPTO's comments that seek to prevent abuses of the system and any weakening of the U.S. patent system.

#### New Proceedings

A post-grant review (PGR), under 35 USC §321-329, is a proceeding filed within nine months of the granting of a U.S. patent where a person who is not the owner of a patent can petition the USPTO to cancel as unpatentable one or more claims of the patent on any ground relating to invalidity, including anticipation (§102), obviousness (§103),

or written description (§112).<sup>3</sup> The threshold standard to request a PGR is to show that more likely than not at least one claim of the challenged patent is unpatentable; alternatively, a petition for a PGR may be granted based on a showing that the petition raises a novel or unsettled legal question that is important to other patents or patent applications.<sup>4</sup>

An Inter Partes Review (IPR), under 35 USC §§311-319, is a proceeding that replaces the current *inter partes* reexamination procedure and allows a person who is not the owner of a patent to petition the USPTO to cancel as unpatentable one or more claims of the patent. The potential grounds for an IPR are limited to challenges relating to anticipation (§102) or obviousness (§103) and only on the basis of prior art consisting of patents or printed publications.<sup>5</sup> The threshold to institute an *inter partes* review is to show a reasonable likelihood that the petitioner will prevail with respect to at least one of the claims challenged. The USPTO has made it clear that "reasonable likelihood" for the *inter partes* review is a higher threshold than "more likely than not" for the post-grant review.<sup>6</sup>

These new procedures provide new avenues to challenge a U.S. patent, but in many ways model the opposition procedure in effect for many years in several other countries such as Australia, Japan and most of the countries in Europe. For example, the European Patent Office (EPO) procedure allows any patent issued by the EPO to be centrally opposed during the first nine months post grant. It has become a widely used alternative to challenging the validity of an European patent at the national courts because the proceeding is simple, inexpensive and quickly weeds out weak patents.

Like the European system, the new PGR and IPR proceedings require only that the petitioner is not the owner of the challenged patent and that the period to bring such action is proper. In particular, proposed rule §42.104 requires that a petition for IPR "certify that the patent for which review is sought is available for *inter partes* review and that the petition is not barred or estopped from requesting IPR of the patent." Rule §42.204 sets forth a similar basis for a PGR.

In contrast, to file an action in a U.S. District Court requires that the plaintiff demonstrate an "inquiry in fact that is fairly traceable to the defendant and that can be redressed by a judgment in his favor."<sup>7</sup> This general standard has been further defined by the

DOROTHY R. AUTH is a litigation partner at *Cadwalader Wickersham & Taft*. QIAN WANG, an associate in the firm's New York office, contributed to this article.

U.S. Supreme Court in *MedImmune v. Genentech*<sup>8</sup> in that for subject matter jurisdiction in a declaratory judgment action for patent invalidity, a “substantial controversy between the parties having adverse legal interests, of sufficient immediacy and reality to warrant” relief must exist. *Id.*

None of these elements are required for the standing to a PGR or IPR. It is therefore understandable that concerns persist that these new proceedings could result in continuous attacks from multiple third parties and disrupt the U.S. patent system. The final rules, published Aug. 14, attempt to address some of these concerns through provisions relating to strict timing requirements, estoppel provisions, and identification and limits on real party-in-interest and their privies.

### The Limiting Measures

The following measures are designed to limit the use of the post-grant review and the inter partes review.

**Timing for Filing a Petition.** The AIA has set strict constraints as to when a petition may be filed. For the post-grant review, the petition must be filed no later than the date that is nine months after the date of the grant of the patent or of the issuance of a reissue patent.<sup>9</sup> If the petition is directed to a reissue patent, the nine-month period begins from the date of re-issuance for those broader-than-before claims, while those claims identical to or narrower than the original claims must have been opposed within the original nine-month period.<sup>10</sup> For the inter partes review, the petition must be filed more than nine months after the date of the grant of the patent or of the issuance of a reissue patent and after all post-grant review proceedings are terminated.<sup>11</sup>

These timing limits prevent multiple simultaneous PGR and IPR proceedings. However, the law creates a sequential process such that a patent may potentially be challenged serially over an extended period of time.

**Estoppel.** The estoppel provisions are intended to curb this problem of serial challenges to a patent from either the same third party or different third parties but on the same grounds.

The applicable provisions, 35 U.S.C. §§315(e) and 325(e), lay down nearly identical estoppel rules for post-grant reviews and inter partes reviews. Under these provisions, an unsuccessful petitioner (as real party-in-interest or its privies) of a claim in a patent that results in a final written decision may not request or maintain a proceeding before the USPTO, a U.S. district court or the International Trade Commission (ITC) with respect to that claim on any ground that the petitioner raised or reasonably could have raised during that prior post-grant review or inter partes review proceeding.<sup>12</sup> The estoppel effect of a final written decision not only covers USPTO proceedings, which include inter partes reviews and ex parte reexaminations, it also extends to actions in the U.S. district courts and the ITC.

Estoppel will only take effect after a final written decision is issued, i.e., a decision by the Patent Trial and Appeal Board on whether the challenged claims will be sustained, revoked or sustained in the amended form. A decision not to institute review is not considered to be a final written decision. Therefore, estoppel has no effect if a party attempts to bring a post-grant proceeding while another proceeding with the same essence is pending or

if the USPTO has decided not to institute review based on a similar petition. Similarly, settlement of a PGR or IPR does not impose any estoppel on the petitioner or its privies.<sup>13</sup>

In addition, §325(d) gives the USPTO director authority to take into account whether the same or substantially the same prior art or arguments have been presented to the agency and to reject a petition for IPR on that basis. This authority will also help curtail piecemeal challenges against specific claims in the same patent.<sup>14</sup>

The scope of estoppel depends first on the challenged claims. Since estoppel is on a claim-by-claim basis, non-challenged claims may not be subject to estoppel. The scope of estoppel further depends on the grounds that the petitioner reasonably could have raised in the first proceeding. Since the grounds for post-grant reviews are broader than inter partes reviews, the estoppel effect of a post-grant review will be broader than an inter partes review. Finally, the scope of estoppel also depends on the identity of the real party-in-interest or privy as compared to the real party-in-interest or privy in the later proceeding.

**Real Party-in-Interest/Privy.** Estoppel applies to a petitioner, the real party-in-interest as well as the privies of the real party-in-interest.<sup>15</sup> This measure is intended to prevent circumvention of estoppel by filing a later proceeding with an alter ego after an unsuccessful first post-grant proceeding. In order for this provision to be effective, accurate identification of the real party-in-interest is essential to every new proceeding.

The USPTO requires the petitioner’s “real party-in-interest” identification at the time of filing the petition, and §42.8(a)(3) requires a party to file an update within 21 days of a change of such identification. In addition, the patent holder may challenge the “real party-in-interest” identification but such challenges should be brought before or with the filing of the patent owner’s preliminary response. As an additional safeguard, a patent owner may seek authorization to take pertinent discovery regarding the identity of the real party-in-interest. After institution of a review, standing issues regarding the real party-in-interest may still be raised during the trial.<sup>16</sup>

Central to determining this issue is determining the boundaries of the terms “real party-in-interest” and “privy.” The final rules do not define these terms; instead, the USPTO believes that a case-by-case approach is the best way to resolve any dispute, and the agency promises to provide more guidance in its opinions and will publish relevant decisions promptly.<sup>17</sup> The USPTO does provide some clues as to what it looks for: It may consider whether and to what extent the non-party exercised, or could have exercised, control over a party’s participation in a proceeding.<sup>18</sup> Certain factors will be relevant in defining real party-in-interest and privy, including (1) corporate organization (such as subsidiaries, affiliates, aka’s), (2) change in corporate organization (such as mergers, acquisitions, spin-offs, etc.), and (3) membership in a Joint Defense Agreement (JDA) (i.e., where an earlier petition was filed by a consortium or pursuant to a JDA in the course of litigation in which the issue of estoppel is raised). As to the last factor, the USPTO has made it clear that a party’s JDA membership “does not, standing alone, make the party a real party-in-interest or privy of the petitioner, but the fact is relevant to those inquiries.”<sup>19</sup>

**Relationship With District Court Actions.** The AIA and the USPTO’s final rules attempt to prevent overlap between the two new proceedings and district court civil actions to prevent multiple attacks by a patent challenger in different tribunals. Subsection (1) of 35 U.S.C. §§315(a) and 325(a) prohibits filing of a post-grant review or an inter partes review where a civil action challenging the validity of the patent has been previously filed. Subsection (2) similarly states that if any civil action challenging the validity of the patent is filed after the filing of a petition to institute a post-grant review or an inter partes review, the civil action will be automatically stayed. The civil actions referred by sections 315(a) and 325(a) only include declaratory judgment actions and do not affect filing of counterclaims to infringement actions.

The reverse mechanism is also provided. The provision 35 U.S.C. §315(b) stipulates that an inter partes review may not be filed more than one year after the service of a complaint in a civil action alleging infringement of the challenged patent. As for the post-grant review proceeding, if a civil action alleging infringement is filed within three months after the date the patent is granted, the court may not stay its determination of the patent owner’s preliminary injunction motion based on the filing of a post-grant review.<sup>20</sup>

Although these new proceedings may put a patent holder on edge as to whether the patent will be challenged at multiple stages after its issuance, the new rules include safeguards that limit the number of challenges and the timing of such challenges. While only time will tell, based on the fact that elements of these procedures have come both from practices in other countries as well as suggestions from practitioners in the United States, the new law should not by itself weaken the system but rather strengthen meritorious patents and allow the kind of patent activity originally prescribed by Jefferson and others in creating the U.S. patent system.



1. Auth, D., et al., “Congressional Breakthrough on Patent Reform Likely This Fall” *New York Law Journal* 246(52) 2011.

2. Auth, D. et al., “Inter partes re-examination: What lies ahead” *National Law Journal*, Aug. 18, 2008.

3. 35 U.S.C. §321(a), (b).

4. 35 U.S.C. §324(a), (b).

5. 35 U.S.C. §311(b).

6. 35 U.S.C. §314(a).

7. *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560-1 (1992).

8. *MedImmune v. Genentech*, 549 U.S. 118, 127 (2007).

9. 35 U.S.C. §321(c).

10. 35 U.S.C. §325(f).

11. 35 U.S.C. §311(c).

12. 35 U.S.C. §§315(e), 325(e).

13. 37 C.F.R. §42.73(d)(1).

14. 77 F.R. 48702, Response to Comment 55.

15. 35 U.S.C. §§315(e) and 325(e).

16. 77 F.R. 48695, Response to Comment 8.

17. 77 F.R. 48694-95.

18. 77 F.R. 48695.

19. 77 F.R. 48695.

20. 35 U.S.C. §325(b).