

USPTO Regs Could Impose Steep Fees On Patent Challengers

By Erin Coe

Law360, San Diego (February 08, 2012, 11:45 PM ET) -- The U.S. Patent and Trademark Office on Tuesday released proposed rules for administrative procedures to challenge issued patents as required by the patent reform law, and while intellectual property lawyers say the proceedings give companies alternatives to litigation, they are not cheap and are going to put added strain on the agency.

The USPTO introduced nonfinal versions of its proposed rules for contested cases, including post-grant and inter partes reviews, which came out of the America Invents Act. The final versions of its rules are set to be published in the Federal Register on Thursday and Friday.

A post-grant review allows for parties to contest the validity of a patent within nine months of being issued by the USPTO, and in addition to submitting printed publications and patents as prior art, they can raise a broad range of invalidity arguments, including lack of enablement or written description.

A patent issued more than nine months ago can be subject to an inter partes review, but a party can only challenge the patent based on printed publications and patents.

The USPTO seeks to impose fees that will increase depending on the number of claims involved in the procedure. For a post-grant review request involving 20 or fewer claims, a patent challenger will have to pay \$35,800, while a request involving 61 to 70 claims will cost \$125,300. A request for an inter partes review of 20 or fewer claims will cost \$27,200, while a request involving 61 to 70 claims will be \$95,200.

For cash-strapped companies and those that may have disputes involving smaller damages amounts, these fees could scare them away, according to Foley & Lardner LLP partner Matthew Smith.

"Part of the congressional purpose for the alternative proceedings was to provide a more economical forum, and while they are still a more economical forum than litigation, they are going in the wrong direction," he said.

The USPTO fees are based on estimates by the American Intellectual Property Law Association, but the amounts may not tell the full story and may be misleading to entities that are looking to compare costs for initiating a post-grant review, inter partes review or lawsuit, according to Fenwick & West LLP partner Rajiv Patel.

While the fee amounts provide a starting point for the average preparation costs for these procedures, the agency did not define what goes into the preparation, and the complexity of proceedings can depend on what invalidity arguments are at issue, the amount of prior art and other factors, he said.

“It would be better to propose a range of costs than a number that could be too low in some instances or too high in other instances,” Patel said.

However, the fees are nowhere near what it would cost to attack a patent in litigation, which can range between \$1.5 million and \$3 million, according to Patel.

“For a cash-constrained company, these proceedings give them options to challenge a patent without taking on the burden of full-blown litigation,” he said. “Even if a company has the means to take on litigation, these proceedings allow it to strategically plan when it should opt for litigation and when it should counter with less costly post-grant and inter partes reviews.”

While the USPTO fees will be an initial shock for companies, these procedures provide business leaders with more options to determine what may be the best approach for contesting a patent, according to Patel.

“Companies have more tools available to challenge patents that they believe lack validity and more flexibility with respect to matching the appropriate proceeding with their business strategy,” he said.

Companies will need to be careful what they raise in a post-grant or inter partes review because estoppel provisions will prevent a patent challenger from litigating over the same prior art that was raised or that could have been raised in the administrative proceeding, according to Smith.

While the estoppel provision in the current inter partes re-examinations doesn’t kick in until after the outcome of a Federal Circuit appeal, the provisions in the new proceedings are triggered once the patent board makes a decision and prior to an appeal, he said.

Expanded discovery in the new proceedings is also likely to pose challenges on the USPTO, given that the agency is obligated to complete a post-grant or inter partes review by one year after its institution, with a possible extension of up to six months in certain circumstances, according to Seyfarth Shaw LLP partner Dan Schwartz.

Post-grant and inter partes reviews will involve a sequencing of discovery, in which the patent owner will be able to identify the parties it wants to depose and then address a petition, the petitioner will follow up with a response, and the patent owner will then get a chance to reply, Schwartz said.

“A lot of things have to happen in a relatively short period of time,” he said. “The rules appropriately provide for some expanded discovery, but the sequencing of the discovery may make it hard for the USPTO board to meaningfully rule within the 12 to 18 months as required by the AIA.”

The USPTO estimates that it will receive 50 petitions for post-grant and covered business method patent review and 460 petitions for inter partes review in fiscal year 2013.

But the agency may need to brace for an explosion of these proceedings once post-grant reviews and inter partes reviews, which are being transitioned from the existing inter partes re-examinations, take effect, according to Schwartz. The new procedures are set to take hold on Sept. 16.

“We’ll see at least initially and in the short term a lot of trials in the USPTO rather than trials in district court because of the expanded discovery and evidence that parties are going to be able to pursue and they may feel comfortable that they can tell their whole story,” he said.

Post-grant reviews are likely to be appealing for companies that want to fight patents issued to their direct competitors in such industries as pharmaceuticals, medical products, telecommunications and chip technologies, where parties are closely watching what their rivals are doing and carefully tracking relevant prior art, according to Schwartz.

While patents issued to nonpracticing entities may be tough for companies to identify and attack within the nine-month limit for bringing a post-grant review, companies are expected to make use of inter partes reviews to challenge these patents, Schwartz said. A company that sees its competitors getting sued over a nonpracticing entity’s patent and suspects it could be next may seek to launch an inter partes proceeding, he said.

“The defendants in the nonpracticing entity’s suit may benefit from a company that takes advantage of the inter partes rules, and there may be cost-sharing among the company and the defendant parties to give people the proper incentives to defend against some patents,” he said.

However, if there is a flood of these new proceedings, Schwartz said he was skeptical whether the USPTO had the wherewithal to handle it.

“If there really is an explosion in the number of cases filed, I don’t think the USPTO will have the man power and brainpower to address all the issues,” he said. “Just like how it has taken the agency a while to deal with the backlog of patent applications, the same could happen here if increased proceedings are filed.”

--Editing by Andrew Park.