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A review of developments in Intellectual Property Law

Post-Grant Review Estoppel – Looking Forward by Looking Back at Estoppel in *Inter-Partes* and Covered-Business-Method Review

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In 2011, the Leahy-Smith America Invents Act (“AIA”) established new post-issuance procedures for challenging the validity of a granted patent before the Patent Trial and Appeal Board (“PTAB” or “Board”).



Inter partes reviews (“IPRs”) and Covered Business Method patent reviews (“CBMs”) have been available since September 16, 2012, and their utilization since that time has exceeded expectations. A third

mechanism, post-grant review (“PGR”), was also made available on that date, but because

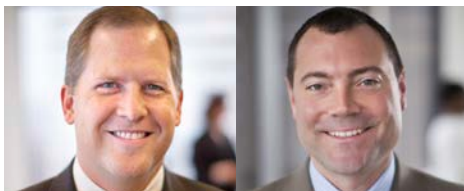
a PGR petition can only be filed for patents that were examined pursuant to the new First-Inventor-to-File scheme established by the AIA, it has not yet been significantly utilized. In addition, the potentially draconian estoppel provisions that attach to PGR petitions initially had practitioners questioning whether these proceedings would be useful at all.¹ However, in the intervening years, the experience with IPRs and CBMs suggests that some of those earlier concerns may have been overblown. Nevertheless, because courts have not yet applied the estoppel provisions of PGRs, caution is still warranted. Here, we describe the IPR and PGR estoppel provisions of 35 U.S.C. §§ 315(e) and 325(e) and courts’ interpretations of those provisions thus far.

PTAB Estoppel

IPR proceedings are limited to challenges based on patents and printed publications

under 35 U.S.C. §§ 102 or 103. On the other hand, PGR proceedings can be based on any type of validity challenge that is available in federal court. This includes attacks under 35 U.S.C. § 101 for patent eligibility, and under 35 U.S.C. § 112 for allegations of a lack of enablement, written description, and a failure to distinctly claim the invention. CBMs are actually a subset of PGRs, but are limited to review of 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, except . . . for technological inventions.”² Nevertheless, the statutory estoppel provisions for IPRs and PGRs are similarly worded: a petitioner (or its real party in interest or privy) of an IPR or PGR of a patent claim that results in a final written decision may not request or maintain

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a proceeding before the PTAB with respect to that claim and may not assert that the claim is invalid in a civil action or International Trade Commission (“ITC”) proceeding “on any ground that the petitioner raised or reasonably could have raised” during the IPR or PGR.³ And, although the scope of estoppel based on IPRs is broad, the PGR estoppel is broader yet: the ability in a PGR proceeding to raise almost any invalidity allegation makes the “reasonably could have raised” language appear to essentially prevent any subsequent challenge to the claims.

From a policy perspective, at least some type of estoppel appears to make sense. It would be unreasonable to allow a petitioner to harass a patent owner by allowing repeated challenges to the validity of a patent. Moreover, because the petitioner initiates the proceeding before the Board, it is not unreasonable that they be bound by the final decision.

However, there are also strong policy considerations for not having broad estoppel provisions, especially for PGRs. Proceedings before the PTAB occur in an expedited manner with limited opportunity to present one’s position. This can prevent the parties from fully developing their cases. Moreover, any ability to obtain discovery during the proceeding is severely limited. This makes it nearly impossible to obtain any document solely in the possession of the patent owner. This is not as important for IPRs, because they are based on publically available documents. However, when considering issues like enablement and written description, the patent owner is likely to be in possession of information highly relevant to the proceedings. Facing the possibility of never being able to obtain this information, many petitioners could simply choose to forgo PGRs in favor of challenging validity in district court. However, such reasoning undermines the purpose of establishing PGRs in the first place. Therefore, it is useful to examine how the estoppel provisions have been applied in IPRs to see if PGR estoppel will be as draconian as anticipated.

Raised Estoppel

The first type of estoppel relates to grounds of invalidity that were actually raised in a petition. What qualifies as a raised ground is fairly straightforward. Less clear, however, is whether estoppel applies to grounds that were

presented in a petition but not instituted by the Board. On its face, the statutory estoppel provisions only apply to claims that have reached a final written decision. But the Board may not institute trial on all presented grounds, for example if the petitioner did not meet its burden with regard to a particular ground or if the invalidity contention was redundant to another in the same or related petition. If those grounds were considered to have been “raised,” then a petitioner could be estopped from ever raising them again.

Fortunately for petitioners, the Federal Circuit has taken a narrow approach to raised estoppel. In *Shaw Industries Group, Inc. v. Automated Creel Systems, Inc.*,⁴ the Court considered whether § 315(e) would apply to grounds that were not instituted because the Board considered them redundant. In that case, the petitioner, Shaw, argued that using redundancy to deny institution of a particular ground was improper, because estoppel would bar its assertion in the future. The Federal Circuit disagreed, pointing out that IPR proceedings occur only after institution. “Thus, Shaw did not raise—nor could it have reasonably raised—the Payne-based ground *during* the IPR. The plain language of the statute prohibits the application of estoppel under these circumstances.”⁵ And even though the court was only applying the estoppel of § 315(e) to federal courts, it seems unlikely that a different standard would be applied at the PTAB or ITC because the related estoppel provisions are identical.

Even though a narrow application of the estoppel provisions would appear positive for petitioners, it does set up some perverse incentives. For example, generally a petitioner is motivated to only present its best arguments in a petition because of the limited word count. But if estoppel does not apply to any ground raised but not instituted, petitioners may be motivated to include every conceivable argument in their petitions, even if multiple petitions are required. Any ground not instituted will be clear from any estoppel and can be reserved for later proceedings.

Could-Have-Raised Estoppel

The second type of estoppel, related to arguments that could have been raised, is more uncertain and has been a serious concern for parties contemplating PGR petitions. In the IPR context, district courts have started interpreting

could-have-raised estoppel as provided in § 315(e)(2). These early cases are also likely to be informative in interpreting the comparable language for PGR could-have-raised estoppel provided in § 325(e)(2).

However, due to the significant differences between IPR and PGR proceedings, the interpretation of § 315(e)(2) will not necessarily control all § 325(e)(2) interpretation issues. For example, because IPRs are limited to anticipation and obviousness (§§ 102 and 103) based on patents and printed publications, the grounds that “could have been” raised are similarly limited.⁶ In contrast, because PGRs can be based on any ground of invalidity in 35 U.S.C. § 282, including patent eligibility (§ 101), indefiniteness and enablement (§ 112), and anticipation and obviousness based on non-printed prior art, the scope of estoppel will be equivalently broadened.⁷ Therefore, could-have-raised estoppel in IPR and PGR proceedings will be different for at least the reason that PGR could-have-raised estoppel potentially encompasses both prior art challenges as well as other invalidity challenges. Indeed, the legislative history on this topic suggests that PGR estoppel was not meant to be as broad as that for IPRs. For example, when commenting on the new post-grant proceedings in Congress, Senator Kyl, who was actively involved in the enactment of the AIA, only addressed IPR-type could-have-raised estoppel, and therefore his comments in the Senate may not be applicable to PGR could-have-raised estoppel.⁸ In fact, *Mattal’s Guide to the Legislative History of the American Invents Act* asserts that PGR could-have-raised estoppel was added to the AIA by mistake.⁹

Could-Have-Raised Estoppel for Prior Art Challenges

The United States District Court for the Northern District of Illinois interpreted § 315(e)(2) in *Clearlamp, LLC v. LKQ Corp.*¹⁰ In *Clearlamp*, the district court found, in the context of granting summary judgment of obviousness, that § 315(e)(2) did not bar the defendant from using a datasheet as a prior art reference that was not raised in the IPR.

The district court noted that “reasonably” is not defined in the statute or case law, and so, the court looked to the legislative history. The court considered a statement by Senator Kyl during the floor debate on the AIA regarding

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could-have-raised estoppel to be the “most on point” legislative history and applied it to the facts of the case:

The present bill also softens the could-have-raised estoppel that is applied by inter partes review against subsequent civil litigation by adding the modifier “reasonably.” It is possible that courts would have read this limitation into current law’s estoppel. Current law, however, is also amenable to the interpretation that litigants are estopped from raising any issue that it would have been physically possible to raise in the inter partes reexamination, even if only a scorched-earth search around the world would have uncovered the prior art in question. *Adding the modifier “reasonably” ensures that could-have-raised estoppel extends only to that prior art which a skilled searcher conducting a diligent search reasonably could have been expected to discover.*¹¹

In this regard, the court ruled that § 315(e)(2) estoppel applies to “prior art that could have been found by a skilled searcher’s diligent search.”¹² The court noted that the PTAB has similarly relied on Senator Kyl’s floor statement in its interpretation of could-have-raised estoppel for subsequent PTO proceedings after an IPR provided in § 315(e)(1).

Citing Seventh Circuit case law, the district court found that the patentee had the burden to prove that estoppel applies.¹³ The court explained that “[o]ne way to show that a skilled searcher would have found [the prior art] would be (1) to identify the search string and search source that would identify the allegedly unavailable prior art and (2) present evidence, likely expert testimony, why such a criterion would be part of a skilled searcher’s diligent search.”¹⁴ The court found that the patentee had not tried to prove the first step and so did not carry their burden.

The court also rejected the patentee’s argument that unavailable prior art that is redundant (or cumulative) prior art falls within the could-have-raised estoppel. The court explained that redundancy was not the relevant inquiry and explained that “[m]erely being redundant to a ground that could have

been asserted during *inter partes* review does not estop the alleged infringer from relying upon a ground based upon prior art that was not reasonably available during *inter partes* review.”¹⁵ While the district court’s judgment in *Clearlamp* was appealed to the Federal Circuit, the case settled before briefing.¹⁶ Thus, *Clearlamp* did not present the appellate court an opportunity to discuss the contours of the could-have-raised estoppel in IPRs.

However, other district courts have taken a seemingly expansive reading of *Shaw*, resulting in an application of could-have-

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raised estoppel that essentially eliminates that section of the statute. In *Intellectual Ventures I LLC v. Toshiba Corporation*,¹⁷ the United States District Court for the District of Delaware considered whether a defendant was estopped from alleging obviousness because it had previously filed an IPR petition, even though the particular art had not been cited. The district court reasoned that because *Shaw* focused on grounds raised “during” the IPR proceeding, meaning only grounds instituted, it was essentially impossible to raise any ground “during” an IPR that was never presented in a petition. The court therefore denied summary judgment, even though that outcome was contrary to policy: “Although extending the above logic to prior art references that were never presented to the PTAB at all (despite their public nature) confounds the very purpose of this parallel administrative proceeding, the

court cannot divine a reasoned way around the Federal Circuit’s interpretation in *Shaw*.”¹⁸ In a subsequent reconsideration opinion, the district court acknowledged that *Shaw* might not be so clear cut, but because the court felt that it was not its place to make policy determinations, it did not change its initial decision.¹⁹ In contrast, however, in an even more recent decision, the Delaware Court concluded that a different petitioner was estopped from asserting prior art references that it reasonably could have raised in an IPR because it would receive “a second bite of the apple”²⁰

Similarly, in *Verinata Health, Inc. v. Ariosa Diagnostics, Inc.*²¹, the United States District Court for the Northern District of California granted-in-part and denied-in-part a motion to strike a defendant’s invalidity contentions that involved prior art presented in IPR. In this regard, the court permitted the defendant to assert obviousness “based on” prior art references on which the IPR was instituted “as combined with art not presented during the IPR.”²² The patentee filed a petition for a writ of mandamus with the Federal Circuit, asking the appellate court to direct the district court to enforce § 315(e)(2), which the court denied.²³

Intellectual Ventures and *Verinata* may give the Federal Circuit an opportunity to discuss the impact of *Shaw* on could-have-raised estoppel. It is possible that the Federal Circuit’s decisions in these cases will be informative of could-have-raised estoppel for prior art challenges in PGRs, given the similar language of the relevant statutory provisions.

Could-Have-Raised Estoppel for Other Invalidity Challenges

Even though district court cases interpreting § 315(e)(2) may not be helpful in interpreting the PGR could-have-raised estoppel provision for other invalidity challenges, courts may look to PTAB cases that interpret the PGR could-have-raised estoppel for subsequent PTO proceedings after an PGR or CBM. In *Apple Inc. v. Smartflash LLC*, the PTAB found that § 325(e)(1) barred the petitioner from raising a § 101 challenge in a CBM proceeding because the petitioner reasonably could have raised that challenge in an earlier CBM proceeding.²⁴ The Board rejected the petitioner’s argument that the Supreme Court’s decision in *Alice Corp. Pty., Ltd. v. CLS Bank Int’l*,²⁵ issued after the

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petition in the earlier CBM proceeding was filed, permitted the petitioner to raise its § 101 challenge. The PTAB explained that § 325(e)(1) “does not make exceptions for intervening case law that clarifies jurisprudence.”²⁶

While the PTAB found in *Apple* that case law that only “clarifies jurisprudence” does not prevent could-have-raised estoppel for subsequent PTO proceedings, the term “reasonably” suggests that a petitioner should not be estopped from asserting eligibility, indefiniteness, enablement, and non-printed prior art challenges in district court litigation in some circumstances. Again, Senator Kyl’s statement during the floor debate is informative: “the modifier ‘reasonably’” was added to “soften[]” IPR could-have-raised estoppel.²⁷ He also suggested that petitioners should not be “estopped from raising any issue that it would have been physically possible to raise in” the PTAB proceeding.²⁸ PGR could-have-raised estoppel should be similarly reasonable.

How will courts interpret PGR could-have-raised estoppel for other invalidity challenges? Case law involving reconsideration, altering or amending judgment, and new trials in district court litigation may be useful.²⁹ For example, reconsideration can be appropriate where “a significant change in the law has occurred” or “significant new facts have been discovered”³⁰ A similar standard could be adopted for PGR could-have-raised estoppel. For example, PGR

could-have-raised estoppel might not apply where new case law decided after the petition was filed supports an invalidity challenge that was previously unsupported. Similarly, PGR could-have-raised estoppel might not apply where new evidence discovered after the petition was filed supports an invalidity challenge that was previously unsupported. While such situations should be rare, it is difficult to say that previously unsupported invalidity challenges “reasonably” could have been raised during the PRG.

Conclusion

After the passage of the AIA, many practitioners viewed the statutory estoppel provisions applied to PGR proceedings as so draconian that PGRs might never be used to challenge issued patents. However, in the intervening years, the IPR estoppel provisions have not been applied as strictly as feared. This gives hope to potential PGR petitioners. Nevertheless, because there are significant differences between these two types of proceedings, practitioners are still advised to be cautious before seeking post-grant review of a patent.³¹

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Endnotes

- 1 See Alan W. Krantz, *Post-Grant Review: A Double-Edged Sword*, SNIPPETS 10(4) (Fall 2012).
- 2 37 C.F.R. § 42.301(a). In addition, CBM review is available for any existing patent regardless of when it was filed.
- 3 35 U.S.C. §§ 315(e)(1)-(2), 325(e)(1)-(2).
- 4 817 F.3d 1293 (Fed. Cir. 2016).
- 5 *Id.* at 1300 (emphasis in original).
- 6 35 U.S.C. § 311(b).
- 7 *Id.* at § 321(b).
- 8 See 157 Cong. Rec. S1375 (Mar. 8, 2011).
- 9 Joe Mattal, *A Guide to the Legislative History of the America Invents Act: Part II of II*, 21 Fed. Cir. Bar J. 539, 618 (2012).
- 10 No. 12 C 2533, 2016 WL 4734389, at *7-10 (N.D. Ill. Mar. 18, 2016).
- 11 *Id.* at *8 (quoting 157 Cong. Rec. S1375 (Mar. 8, 2011) (emphasis in original)).
- 12 *Id.*
- 13 *Id.* at *9 (citing *Kennedy v. United States*, 965 F.2d 414, 417 (7th Cir. 1992) (“The burden of proof is on the party claiming estoppel.”)).
- 14 2006 WL 4734389, at *9.
- 15 *Id.* at *8.
- 16 No. 16-2423 (appeal terminated Feb. 1, 2017).
- 17 No. CV 13-453-SLR, 2016 WL 7341713 (D. Del. Dec. 19, 2016).
- 18 *Id.* at *13.
- 19 See *Intellectual Ventures I LLC v. Toshiba Corp.*, No. CV 13-453-SLR, 2017 WL 107980, at *1-3 (D. Del. Jan. 11, 2017).
- 20 *Parallel Networks Licensing, LLC v. Int'l Business Machines Corp.*, No. CV 13-2072-KAJ, slip op. at 24-26 (D. Del. Feb. 22, 2017).
- 21 12-cv-05501 2017 WL 235048 (N.D. Cal. Jan. 19, 2017).
- 22 *Id.* at *4 & n.2.
- 23 No. 17-109 (petition filed Jan. 27, 2017 and denied Mar. 9, 2017).
- 24 CBM2015-00131, 2015 WL 7296438 (P.T.A.B. Nov. 16, 2015).
- 25 134 S. Ct. 2347 (2011).
- 26 2015 WL 7296438.
- 27 157 Cong. Rec. S1375 (Mar. 8, 2011).
- 28 *Id.*
- 29 Fed. R. Civ. P. 54(b), 52(b), 59.
- 30 See, e.g., *Broadus v. Shields*, 665 F.3d 846, 860 (7th Cir. 2011), *overruled on other grounds* 724 F.3d 965 (7th Cir. 2013).
- 31 Another issue for practitioners to consider that is beyond the scope of this Article is common law issue preclusion. The Federal Circuit explained in *SkyHawke Technologies, LLC v. Deca International Corp.*, 828 F.3d 1373, 1376 (Fed. Cir. 2016), that PTAB decisions “can ground issue preclusion in district courts when the ordinary elements of issue preclusion are met.” For more information on issue preclusion, see Grantland G. Drutchas and James L. Lovsin, *Preclusive Effect of PTAB Decisions Gets A Fresh Look*, IPLaw360.com, (June 19, 2015), available at <https://www.law360.com/articles/664945/preclusive-effect-of-ptab-decisions-gets-a-fresh-look> (reprinted from Spring 2015 *Snippets*).

MBHB Highly Ranked in Key Intellectual Property-Related Practice Areas within 2017 Edition of *U.S. News-Best Lawyers* “Best Law Firms”

McDonnell Boehnen Hulbert & Berghoff LLP (“MBHB”) is highly ranked in key intellectual property-related practice areas within the 2017 edition of *U.S. News-Best Lawyers* “Best Law Firms” at the national and metropolitan levels. Overall rankings are based on a rigorous evaluation process that includes the collection of client and lawyer evaluations, peer review from leading attorneys in their relevant practice area(s), and a review of additional information provided by law firms as part of the formal submission process. Firms included in the 2017 “Best Law Firms” edition are recognized for professional excellence with persistently impressive ratings from clients and peers. Achieving a ranking signals a unique combination of quality law practice and breadth of legal expertise. Rankings are presented both nationally and

by metropolitan area or by state. MBHB is favorably ranked in the 2017 edition as follows:

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- Litigation – Patent
- Patent Law
- Trademark Law

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What Trademark Owners Need to Know About the New Trademark Rules

By James M. McCarthy and Eric R. Moran
Owners of U.S. trademark registrations need to know about a few recent rule changes and be mindful of the changes and U.S. Patent and Trademark Office requirements whenever a declaration of use is due.

U.S. Trademark Office Rule Changes Regarding Showing Use of Registered Marks in U.S. Commerce

In the past, owners of trademark registrations that set forth a long list of goods or services in a single class would typically only submit a single specimen along with a declaration of use. For example, if a trademark registration identified “clothing, namely, shirts, pants, socks, and hats” in class 25, trademark owners were only required to submit evidence that the mark was in use on one of the items (e.g., shirts). While owners were also supposed to delete any items that were no longer in use, often this did not occur.

On February 17, 2017, new rules went into effect at the U.S. Trademark Office concerning declarations of use.¹ In particular, the U.S. Trademark Office may now require additional proof that trademarks are actually in use in connection with each good or service identified in a declaration of use. Such additional proof may include, according to the amended rules, submission of additional specimens of use or additional information, such as exhibits, affidavits, or declarations.

What does this mean? Specifically, trademark owners need to be more careful when signing declarations of use in order to ensure that the list of goods or services accurately lists only items that are actively used in U.S. commerce. Owners would also be well served to collect evidence of use for each item that remains in the description of goods or services, because an examining attorney at the U.S. Trademark Office is now much more likely to ask for such evidence.

The purpose behind the rule amendments is to encourage accuracy in the goods and services for which use is claimed and to

promote the integrity of the trademark register. More practically, according to the amended rules, the public should be able to rely on the trademark register to accurately identify those marks in use when attempting to determine which marks may be available for registration.

Background to the Rules Amendments

The amended rules grew out of a pilot program that began in 2012 and that randomly selected 500 registrations for which declarations of use had been filed. The U.S. Trademark Office required owners of the selected trademarks to submit proof of use for each good or service

In particular, the U.S. Trademark Office may now require additional proof that trademarks are actually in use in connection with each good or service identified in a declaration of use.

identified in the registration, instead of the standard requirement of one specimen of use per class.

The results of the pilot program were instructive:

- in 51% of the selected registrations, trademark owners failed to provide additional proof of use on specific goods or services for which owners initially claimed use;
- of this 51%, in 35% of the selected registrations, owners requested deletion of specific goods or services for which owners initially claimed use; and
- for the remaining 16%, the Office ended up cancelling the selected registrations because owners failed to respond with additional proof or failed to address other

issues raised during examination of the declaration of use.

In sum, the pilot program appeared to succeed in identifying trademark registrants that claimed use on more goods or services than they had a right to. That success, in turn, led to the new rules allowing the Office to scrutinize more closely claims of use when registrants submit declarations of use.

In light of the increased scrutiny, we thought it instructive to review U.S. Trademark Office requirements regarding submissions of declarations of use, including when registrants must show use to maintain registrations, requirements for declarations of use, and appropriate specimens for submission in a declaration of use.

(1) When Must a Registrant Show Use of a Mark in Commerce

The U.S. Trademark Office periodically requires mark owners to submit evidence of current use of a registered mark.

Initially, between the fifth and sixth anniversaries of registration, a registrant must file a declaration of use in commerce, a specimen, and a fee (per class). For an extra fee, a registrant may file within a six-month grace period following the sixth anniversary date. Failure to file a declaration of use will result in cancellation of the registration.

Going forward, between the ninth and tenth anniversaries of the registration, and each successive ten-year period thereafter, a registrant must file a declaration of use in commerce, a specimen, and a fee (per class), as well as a renewal application. For an extra fee, a registrant may file within a six-month grace period following the tenth (or successive ten-year) anniversary date. Failure to file will result in cancellation/expiration of the registration.

(2) Use in Connection with All Identified Goods or Services

As noted above, when filing a declaration of use, the registrant must either:

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- declare that the mark is in current use in U.S. commerce in connection with all of the goods or services identified in a particular class;
- delete a class, or delete those goods or services within a class, for which the mark is not in current use in U.S. commerce; or
- claim excusable non-use for those goods or services for which the mark is not in current use in U.S. commerce.

We note that claiming excusable non-use is somewhat rare. To claim excusable non-use, a trademark owner must show that there is no intention to abandon the mark and that non-use is due to special circumstances beyond the owner's control. The U.S. Trademark Office has provided some guidelines on circumstances that may or may not excuse non-use.²

(3) Use in U.S. Commerce

To qualify as use in U.S. commerce, a trademark registrant must meet the following requirements:

- *for goods*: the mark should be used in connection with goods that are sold or transported in the United States and across state lines; and
- *for services*: the mark should be used in connection with the sale or advertising of services that are rendered in the United States and across state lines.

In other words, use of the mark must be in a type of commerce that the U.S. Congress can regulate.

(4) Appropriate Specimens of Use

The U.S. Trademark Office is very particular about what material it will accept as specimens — or proof — of use of a mark in U.S. commerce. Below we provide some guidelines:

- *for goods*: scanned images or digital photographs showing the mark being used on the actual goods themselves, on commercial packaging for the goods, or on point-of-sale materials for the goods.
- *for software*: screenshots of software showing the mark, or a digital photograph of a display screen using the software and showing the mark can be appropriate specimens for software.
- *for downloadable software*: a scanned

image of a website can also be a proper specimen if it (1) includes a picture or description of the goods; (2) shows the mark sufficiently near the picture or description of the goods to associate the mark with the goods; and (3) includes information necessary to order the goods (e.g., an order form, an order link, a phone number, a mailing address, or an email address for placing orders). If the website simply advertises the software without providing a way to download it, the specimen would be unacceptable for goods.

- *for services*: web pages, brochures, or other advertisements that show the mark as well as perform or describe one or more of the identified services.

In any case, we recommend allowing counsel to review any potential specimens before they are finalized and used in commerce, to help ensure that a registrant creates acceptable specimens and uses the mark in a manner that complies with appropriate trademark usage.

(5) Use of a Trademark Must Be Under the Control and Direction of the Registrant

When filing a declaration of use, a trademark registrant should also ensure that the declared use of the mark is by the owner of record or its written licensee.

If ownership information at the Trademark Office is not current at the time of filing a declaration of use, counsel should also obtain from the registrant the documents needed for recording an ownership change

at the Trademark Office. Such documents become publicly available, so, to the extent necessary and possible, counsel should redact confidential material.

Further, should use of a mark be by a licensee of the registrant, counsel should work with registrant to ensure that an appropriate license agreement exists that grants registrant control over the use of the mark.

The above points are not exhaustive of all considerations that could arise when preparing a declaration of use. They do, however, highlight some important requirements for keeping trademark registrations in force. Further, as a best practice, registrants should review these considerations with counsel periodically during the life of a mark, and not just as declaration of use deadlines approach.

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Endnotes

- ¹ See 37 C.F.R. § 2.161 and 37 C.F.R. § 7.37.
- ² See TMEP §§ 1604.11 and 1613.11.

MBHB Partners Named to Best Lawyers in America 2017 Edition

McDonnell Boehnen Hulbert & Berghoff LLP is pleased to announce firm partners Paul H. Berghoff, Daniel A. Boehnen, Grantland G. Drutchas, Bradley J. Hulbert, Kevin E. Noonan, Ph.D., Matthew J. Sampson, Leif R. Sigmund, Jr. and Donald L. Zuhn, Jr., Ph.D. were selected by their peers for inclusion in the *Best Lawyers in America*® 2017 edition. Of these attorneys, Mr. Berghoff and Dr. Noonan were also named "Lawyer of the Year" respectively for Litigation — Intellectual Property (Chicago) and Biotechnology Law (Chicago). *Best Lawyers* is a highly respected peer-review publication that is widely regarded by both clients and legal professionals as a significant honor.

Patent Office Ethics Developments: Patent Agent Privilege and Duty of Disclosure

By Joshua R. Rich

Seeking to end years of little clarity on two key ethical issues for practitioners, the Patent Office has proposed two new rules of practice. The first rule would allow parties to invoke privilege in *inter partes* proceedings to prevent the disclosure of communications between clients and non-attorney patent agents. The second rule would change the duty of disclosure to comport with the standard set forth in the *Therasense* case. Based on the comments from the public, it appears likely that the Office will adopt the patent-agent privilege rule but go back for another round of changes to the duty of disclosure rule.

Patent Agent Privilege

On October 18, 2016, the Patent Trial and Appeal Board (“PTAB”) issued a Federal Register Notice proposing a rule that would protect against disclosure of communications between patent agents (or foreign patent practitioners) and their clients to the same extent as the protection against disclosure of communications between U.S. attorneys and clients.¹ The privilege would apply in connection with discovery in certain Patent Office proceedings, namely *inter partes* review, post-grant review, the transitional program for covered business method patents, and derivation proceedings.² There is no clear rule on the issue currently, and PTAB administrative law judges make discovery decisions on a case-by-case basis. The rule, which has received widespread approval among commentators, would make Patent Office practice consistent with recent Federal circuit case law, but conflicts with a recent state court decision.

The proposal for the rule came after the Patent Office held a roundtable in February 2015 to discuss privilege issues generally. Numerous government agencies, intellectual property organizations, companies and individuals participated in the roundtable.³ Nineteen parties also submitted comments afterward.⁴ The strong consensus was that a privilege on communications between a client and a patent agent or foreign practitioner should be adopted, but there were various proposals for how to do so.⁵ Suggested

approaches included Federal legislation, a multilateral treaty, and the adoption of a rule by the Patent Office.⁶ Notably, the last of the options was criticized for potentially not being able to bind courts, which has since come to a head.⁷

In March 2016, before the Patent Office acted on the roundtable recommendations, the Federal Circuit held in *In re Queen’s University* that communications between a client and a non-attorney patent agent that relate to Patent Office proceedings are privileged from discovery in Federal courts.⁸ In earlier cases, district courts had taken a variety of approaches ranging from fully recognizing such a privilege, to finding that privilege applies only when the patent agent is supervised by a licensed attorney, to rejecting the privilege entirely.⁹ Following the line of cases rejecting such a privilege, the district court had compelled the production of documents after finding that communications between Queen’s University employees and their non-attorney patent agents were not subject to the attorney-client privilege and no separate patent agent privilege existed.¹⁰ The Federal Circuit reversed that determination based on a petition for mandamus.¹¹

The Federal Circuit first considered which law to apply, its own or the law of the regional circuit in which the case was being heard. The issue of choice of law has special importance in the area of privilege, because Federal Rule of Evidence 501 provides that “in a civil case, state law governs privilege regarding a claim or defense for which state law supplies the rule of decision.”¹² However, in determining whether specific materials are discoverable, the Federal Circuit applies its own law if the materials relate to an issue of substantive patent law.¹³ Here, the Court found that a patentee’s communications with its patent agent regarding prosecution of the patent are potentially relevant to substantive issues including claim construction, validity, and inequitable conduct.¹⁴ Thus, the Court applied its own law, rather than any specific state’s law.¹⁵

In determining whether a patent agent privilege exists under Rule 501, the Court

started with the Rule’s indication that the common law – “in light of [a court’s] reason and experience” – governs a claim of privilege.¹⁶ In doing so, the Rule did not intend to freeze the law of privilege as of any given time, but rather intended to allow courts “to continue the evolutionary development of testimonial privileges.”¹⁷ The Federal Circuit found that the circumstances – including the unique roles of patent agents, congressional recognition of their authority to act, the Supreme Court’s characterization of their activities as the practice of law, and current realities of patent litigation – counseled that the law had evolved to the point where it should recognize a patent-agent privilege independent of any involvement by a lawyer.¹⁸

As the Supreme Court held over fifty years ago, patent agents have a unique role in American law.¹⁹ They are not members of any state bar (and therefore are not attorneys), but are authorized to practice before the Patent Office. As the *Sperry* Court found, that practice is not mere law-like activity, it is actually the congressionally-authorized practice of law itself.²⁰ In *Queen’s University*, the Federal Circuit applied that holding and found that it would support the adoption of a privilege to allow communications between any patent practitioner (agent or attorney) to the same degree. As the Federal Circuit stated,

Whether those communications are directed to an attorney or his or her legally equivalent patent agent should be of no moment. Indeed, if we hold otherwise, we frustrate the very purpose of Congress’s design: namely, to afford clients the freedom to choose between an attorney and a patent agent for representation before the Patent Office.²¹

Of course, because a patent agent is licensed to practice only before the Patent Office, the scope of the patent agent privilege is limited to communications in furtherance of, or reasonably necessary and incident to, patent prosecution tasks.²² Other communications, such as opinions on infringement or the validity

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of another party's patents, are not subject to a patent-agent privilege.²³

However, in August 2016, a Texas appellate court decided the Federal Circuit's *Queen's University* decision on patent-agent privilege would not apply in Texas state court proceedings.²⁴ Unlike Rule 501 of the Federal Rules of Evidence, the Texas Rules of Evidence do not allow courts to recognize new discovery privileges.²⁵ The Texas court then found that the *Queen's University* decision was not binding because the Federal Circuit was applying its own law in a patent case, where federal patent law provided the rules for decision.²⁶ In contrast, the *Silver* case involved an alleged breach of contract and was governed by Texas state law. The Court therefore did not recognize any privilege and required the documents to be produced.²⁷ Interestingly, one of the judges dissented based on somewhat different reasoning from the *Queen's University* decision. Specifically, he relied on the *Sperry* finding that patent agents were practicing law to determine that patent agents would qualify as "lawyers" under Texas privilege law because they were "person[s] authorized . . . to practice law in any state or nation" under Rule 503 of the Texas Rules of Evidence.²⁸ He therefore suggested that patent agent communications could be subject to the existing attorney-client privilege, rather than be a new privilege unto itself.

Against this background, the Patent Trial and Appeal Board proposed a new rule (which would be 37 CFR § 42.57) that would essentially apply the attorney-client privilege to patent prosecution-related communications between any patent practitioner and his or her client:

(a) Privileged communications.

A communication between a client and a domestic or foreign patent practitioner that is reasonably necessary or incident to the scope of the patent practitioner's authority shall receive the same protections of privilege as if that communication were between a client and an attorney authorized to practice in the United States, including all limitations and exceptions.

(b) Definitions. The term "domestic patent practitioner" means a person who is registered by the United States Patent and Trademark Office to practice before the agency

under section 11.6. "Foreign patent practitioner" means a person who is authorized to provide legal advice on patent matters in a foreign jurisdiction, provided that the jurisdiction establishes professional qualifications and the practitioner satisfies them, and regardless of whether that jurisdiction provides privilege or an equivalent under its laws.²⁹

Two key points appear in the proposed rule. First, like the Federal Circuit's *Queen's University* decision, the proposed rule limits the subject matter of protected communications. Here, it is worded as communications "reasonably necessary or incident to the scope of the patent practitioner's authority." For a domestic practitioner, that would be limited to patent prosecution-related matters; for a foreign practitioner, it could be broader or narrower. Second, the privilege attaches to communications "regardless of whether that jurisdiction provides privilege or an equivalent under its laws." For some countries, such as civil law countries that do not allow extensive discovery in litigation, privilege would attach even though the practitioner's domestic courts have not considered the issue of privilege. For other countries, most notably Canada, the privilege would attach even though it is not recognized for patent agents in the home country itself.

As would be expected with the broad support for such a rule at the 2015 roundtable, the comments for the proposed rule were positive. In fact, the Intellectual Property Owners Association (IPO), the American Intellectual Property Association (AIPAA), and the Fédération Internationale des Conseils en Propriété Intellectuelle (FICPI) all recommended adoption without change.³⁰ Thus, it would appear that the Patent Office is headed toward the adoption of a patent-agent privilege.

Amending the Duty of Disclosure

On October 28, 2016, fast on the heels of the notice of the proposed rule for the patent-agent privilege, the Patent Office proposed a revision to the duty of disclosure to conform to the litigation standard for a finding of inequitable conduct.³¹ The long-awaited proposal seeks to bring the Office's regulations in line with the Federal Circuit's 2011 *en banc* decision in *Therasense, Inc. v. Becton, Dickinson & Co.*³² Unlike the patent-agent privilege rule,

however, the proposed rule drew numerous concerned comments.³³ The Patent Office is likely to consider those comments and seek further input.

In *Therasense*, the Federal Circuit sought to raise the bar for finding inequitable conduct to "reduce the number of inequitable conduct cases before the courts and . . . cure the problem of overdisclosure of marginally relevant prior art to the PTO."³⁴ A finding of inequitable conduct generally requires that material art be withheld with an intent to deceive the Patent Office.³⁵ With regard to the materiality prong of the test, the Federal Circuit indicated that generally only "but-for" materiality would support a finding of inequitable conduct.³⁶ Specifically, the court stated that "in assessing the materiality of a withheld reference, the court must determine whether the PTO would have allowed the claim if it had been aware of the undisclosed reference[.] . . . apply[ing] the preponderance of the evidence standard and giv[ing] claims their broadest reasonable construction."³⁷ In addition to the general rule for materiality, the Federal Circuit indicated that prong of the test could be satisfied by affirmative acts of "egregious misconduct," even if the acts would not have necessarily prevented the issuance of the patent.³⁸ While the Federal Circuit did not provide clear guidance on how to determine whether acts would be considered egregious misconduct, it did give some examples: submission of a false affidavit would qualify, but mere nondisclosure of prior art would not.³⁹

The Patent Office first reacted to the *Therasense* decision in 2011, proposing a rule consistent with the holding and seeking public comment.⁴⁰ The comments identified numerous concerns with the 2011 proposed rule.⁴¹ The Office therefore went back to the drawing board and spent five more years coming up with new proposed rules.

In light of those comments, the October 2016 proposed rule includes two separate rules, one for patent prosecution (37 CFR § 1.56) and one for Patent Trial and Appeal Board Proceedings (37 CFR § 1.555). The proposed rules are as follows:

§ 1.56 Duty to disclose information material to patentability.

(a) A patent by its very nature is affected with a public interest.

The public interest is best served,

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and the most effective patent examination occurs when, at the time an application is being examined, the Office is aware of and evaluates the teachings of all information material to patentability. Each individual associated with the filing and prosecution of a patent application has a duty of candor and good faith in dealing with the Office, which includes a duty to disclose to the Office all information known to that individual to be material to patentability under the but-for materiality standard as defined in paragraph (b) of this section. The duty to disclose information exists with respect to each pending claim until the claim is cancelled or withdrawn from consideration or the application becomes abandoned. Information material to the patentability of a claim that is cancelled or withdrawn from consideration need not be submitted if the information is not material to the patentability of any claim remaining under consideration in the application. There is no duty to submit information which is not material to the patentability of any existing claim. The duty to disclose all information known to be material to patentability is deemed to be satisfied if all information known to be material to patentability of any claim issued in a patent was cited by the Office or submitted to the Office in the manner prescribed by §§ 1.97(b) through (d) and 1.98. However, no patent will be granted on an application in connection with which affirmative egregious misconduct was engaged in, fraud on the Office was practiced or attempted, or the duty of disclosure was violated through bad faith or intentional misconduct. The Office encourages applicants to carefully examine:

(1) Prior art cited in search reports of a foreign patent office in a counterpart application, and

(2) The closest information over

which individuals associated with the filing or prosecution of a patent application believe any pending claim patentably defines, to make sure that any material information contained therein is disclosed to the Office.

(b) Information is but-for material to patentability if the Office would not allow a claim if the Office were aware of the information, applying the preponderance of the evidence standard and giving the claim its broadest reasonable construction consistent with the specification.

§ 1.555 Information material to patentability in ex parte reexamination and inter partes reexamination proceedings.

(a) A patent by its very nature is affected with a public interest. The public interest is best served, and the most effective reexamination occurs when, at the time a reexamination proceeding is being conducted, the Office is aware of and evaluates the teachings of all information material to patentability in a reexamination proceeding. Each individual associated with the patent owner in a reexamination proceeding has a duty of candor and good faith in dealing with the Office, which includes a duty to disclose to the Office all information known to that individual to be material to patentability in a reexamination proceeding under the but-for materiality standard as defined in paragraph (b) of this section. The individuals who have a duty to disclose to the Office all information known to them to be material to patentability in a reexamination proceeding are the patent owner, each attorney or agent who represents the patent owner, and every other individual who is substantively involved on behalf of the patent owner in a reexamination proceeding. The duty to disclose the information exists with respect to each claim pending in the reexamination proceeding until the claim is cancelled. Information material to the patentability of

a cancelled claim need not be submitted if the information is not material to patentability of any claim remaining under consideration in the reexamination proceeding. The duty to disclose all information known to be material to patentability in a reexamination proceeding is deemed to be satisfied if all information known to be material to patentability of any claim in the patent after issuance of the reexamination certificate was cited by the Office or submitted to the Office in an information disclosure statement. However, the duties of candor, good faith, and disclosure have not been complied with if affirmative egregious misconduct was engaged in, any fraud on the Office was practiced or attempted, or the duty of disclosure was violated through bad faith or intentional misconduct by, or on behalf of, the patent owner in the reexamination proceeding. Any information disclosure statement must be filed with the items listed in § 1.98(a) as applied to individuals associated with the patent owner in a reexamination proceeding and should be filed within two months of the date of the order for reexamination or as soon thereafter as possible.

(b) Information is but-for material to patentability if, for any matter proper for consideration in reexamination, the Office would not find a claim patentable if the Office were aware of the information, applying the preponderance of the evidence standard and giving the claim its broadest reasonable construction consistent with the specification.

Unlike the patent-agent privilege rule, the comments on the duty of disclosure proposed rule uniformly suggested changes. Some of the proposed changes were relatively minor, but some of them suggested scrapping the proposed rule and starting from a blank slate.

One preliminary concern in many of the comments was whether the Patent Office should even seek to conform its ethical rules to the Federal Circuit's inequitable conduct

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standard. Commenters as varied as James Toupin, former general counsel of the Office; Robert Armitage,⁴² former general counsel for Eli Lilly; and the Electronic Freedom Foundation raised such a concern.⁴³ Professor David Hricik questioned whether the *Therasense* decision would survive in the future, should the Supreme Court review the standard.⁴⁴ On the other hand, the Intellectual Property Owners Association (IPO), American Intellectual Property Law Association (AIPLA), and National Association of Patent Practitioners (NAPP) favored conforming the rules to the *Therasense* standard.⁴⁵

Next, many commenters expressed a concern whether the amended rules would, as intended, have the effect of conforming the Patent Office's disclosure rules to the Federal Circuit's inequitable conduct standard. As numerous commenters pointed out, the proposed rules require the disclosure of prior art that is material to pending claims, given the broadest reasonable construction of the claims. But courts do not use the broadest reasonable construction, they seek the correct (and therefore narrower) construction. As a result, the Pharmaceutical Research and Manufacturers of America (PhRMA), Professor Hricik, George Spencer, and the EFF questioned whether patent practitioners would actually change their

behavior in light of the proposed rules.⁴⁶

Many parties believed that even if the goals and effects of the proposed rule were appropriate, changes were needed. Professor Hricik suggested limiting the responsible parties in § 1.555 to those that would be responsible under § 1.56 to avoid ambiguity.⁴⁷ IPO, AIPLA, and NAPP suggested that the proposed rule might be amended to exempt information that Examiners should be required to search.⁴⁸ NAPP also suggested that the duty of disclosure should terminate upon the payment of an issue fee, when an Information Disclosure Statement cannot be filed without reopening prosecution (or filing a request for continued examination).

Finally, the Biotechnology Innovation Organization (BIO) questioned whether a duty of disclosure was needed at all. Given all of the questions about whether the change in the rules would affect patent prosecution practice, the existing ability to punish false statements under other legal provisions, and the availability of new invalidation mechanisms under the America Invents Act, many BIO members thought that it would make more sense to defer disclosure questions to the Courts, enforcing the obligation of candor under the *Therasense* decision itself.⁴⁹

Given all of the concerns about the proposed rule among stakeholders in the patent prosecution process, it would be surprising if

the Patent Office adopted the proposed duty of disclosure rules without further amendment. Thus, we can look forward to the Patent Office's response and further changes.

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Endnotes

- 1 Rule Recognizing Privileged Communications Between Clients and Patent Practitioners at the Patent Trial and Appeal Board, 81 Fed. Reg. 71653 (proposed Oct. 18, 2016) (to be codified at 37 C.F.R. pt. 42.57).
- 2 *Id.* at 71654.
- 3 *Roundtable on Domestic and International Issues Related to Privileged Communications Between Patent Practitioners and Their Clients*, USPTO.GOV, <https://www.uspto.gov/learning-and-resources/ip-policy/roundtable-domestic-and-international-issues-related-privileged>.
- 4 *Id.*
- 5 *See id.*
- 6 *See id.*, comments of AIPLA (treaty or legislation), AIPPI (court decision or treaty), CIPA (treaty), John Cross (USPTO rules or legislation), IPO (USPTO rules, legislation, or treaty), IPIC (legislation).
- 7 *See, e.g.*, <https://www.regulations.gov/document?D=PTO-P-2016-0029-0015> (comments of John T. Cross); *see also* <https://www.regulations.gov/document?D=PTO-P-2016-0029-0011> (regulation would violate New Jersey ethical rules).
- 8 *In re Queen's University at Kingston*, 820 F.3d 1287, 1301 (Fed. Cir. 2016).
- 9 *See id.* at 1292 n.1 (collecting cases).
- 10 *Queen's University at Kingston v. Samsung Electronics Co., Ltd.*, 14-cv-00053-JRG-RSP, Dkt. Entry 134, 140, 149, 179.
- 11 *In re Queen's University*, 820 F.3d at 1292.
- 12 Fed. R. Evid. 501.
- 13 *In re Queen's University*, 820 F.3d at 1290.
- 14 *Id.* at 1291.
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- 17 *In re Queen's University*, 820 F.3d at 1294 (quoting *Jaffee v. Redmond*, 518 U.S. 1, 8–9 (1996) (internal quotation marks omitted)).
- 18 *Id.* at 1295.
- 19 *Sperry v. Florida ex rel. Florida Bar*, 373 U.S. 379, 381 (1963).
- 20 *Id.* at 383–85.
- 21 *Queen's University*, 820 F.3d at 1298.
- 22 *Id.* at 1301.
- 23 *Id.* at 1301–02. Judge Reyna forcefully dissented from the Court's decision. He contested both the need for such a privilege and the evidentiary basis upon which the Court relied. *Id.* at 1302.
- 24 *In re Silver*, No. 05-16-00774-CV, 2016 WL 4386004 (Tex. Ct. App. Aug. 17, 2016).
- 25 *Id.* at *1.
- 26 *Id.* at *2.
- 27 *Id.*
- 28 *Id.* at *4.
- 29 Rule Recognizing Privileged Communications Between Clients and Patent Practitioners at the Patent Trial and Appeal Board, 81 Fed. Reg. 71653, 71657 (proposed Oct. 18, 2016) (to be codified at 37 C.F.R. pt. 42.57).
- 30 *See* <https://www.regulations.gov/docketBrowser?pp=25&po=0&dct=PS&D=PTO-P-2016-0029&refD=PTO-P-2016-0029-0001>.
- 31 Revision of the Duty To Disclose Information in Patent Applications and Reexamination Proceedings, 81 Fed. Reg. 74987, 74996 (proposed Oct. 28, 2016) (to be codified at 37 C.F.R. pt. 1).
- 32 *Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276 (Fed. Cir. 2011).
- 33 *Comments on the Revision of the Duty To Disclose Information in Patent Applications and Reexamination Proceedings*, USPTO.GOV, <https://www.uspto.gov/patent/laws-and-regulations/comments-public/comments-revision-duty-disclose-information-patent>.
- 34 *Therasense*, 649 F.3d at 1291.
- 35 *Id.* at 1290.
- 36 *Id.* at 1291.
- 37 *Id.*
- 38 *Id.* at 1292.
- 39 *Id.* at 1292–93.
- 40 Revision of the Materiality to Patentability Standard for the Duty To Disclose Information in Patent Applications, 76 Fed. Reg. 43631, 43634 (proposed July 21, 2011).
- 41 *Comments on Revision of the Materiality to Patentability Standard for the Duty To Disclose Information in Patent Applications*, USPTO.GOV, <https://www.uspto.gov/patent/laws-and-regulations/comments-public/comments-revision-materiality-patentability-standard>.
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- 44 *Id.*
- 45 *Id.*
- 46 *Id.*
- 47 *Id.*
- 48 *Id.*
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Narrowing Jurisdiction in Covered Business Method Proceedings

By Joseph A. Herndon

In 1998, the United States Court of Appeals for the Federal Circuit decided *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, which upheld the patentability of business methods in the United States.¹ Since then, an increasing number of business method patent applications have been filed at the United States Patent & Trademark Office (USPTO).

Thirteen years and thousands of issued business method patents later, Congress enacted the transitional program for post-grant review of covered business method (CBM) patents by the Patent Trial and Appeal Board (PTAB or Board) in the America Invents Act (AIA) of 2011. CBM reviews took effect in September 2012 to adjudicate the validity of a so-called business method patent in lieu of district court litigation. However, since enactment of the CBM procedure, there have been many issues with the process, including non-uniformity in PTAB rulings as to whether the challenged patent qualifies as a covered business method, i.e., whether the patent at issue 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. Although the PTAB has instituted CBM trials for patents that do not facially qualify as business method patents, recent Federal Circuit decisions have required a more strict reading of the AIA statute in instituting CBM trials.

What are CBMs?

CBMs are challenges to review the patentability of one or more claims in a “covered business method” patent. A CBM proceeding is a trial proceeding conducted at the PTAB that employs standards and procedures of a post-grant review, with certain exceptions. This is a transitional program for covered business method patents (TPCBM) because the procedure took effect September 16, 2012, but will sunset for new TPCBM petitions on September 16, 2020 (existing petitions/trials will continue to completion).

CBMs are one of the three post-grant proceedings enacted by the AIA, with the other

two being Post Grant Reviews (PGRs) and Inter Partes Reviews (IPRs). IPRs and CBMs have various differences, but one key distinction is that CBMs permit petitioners to challenge claims under 35 U.S.C. §101, whereas such challenges are not allowed in IPR proceedings. Thus, CBM challenges typically include a patentable eligibility subject matter challenge.

Below is a timeline for a typical CBM proceeding. Notably, following institution of the trial, the PTAB will typically issue a final written decision within 12 months.

Standing for Instituting a CBM Proceeding

A Petitioner must have standing to institute the CBM proceeding under 37 C.F.R. § 42.302, including that the patent for which review is sought must be a CBM patent. Much controversy surrounds the inquiry of whether the patent qualifies as a CBM patent. The AIA defines a CBM 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.”²

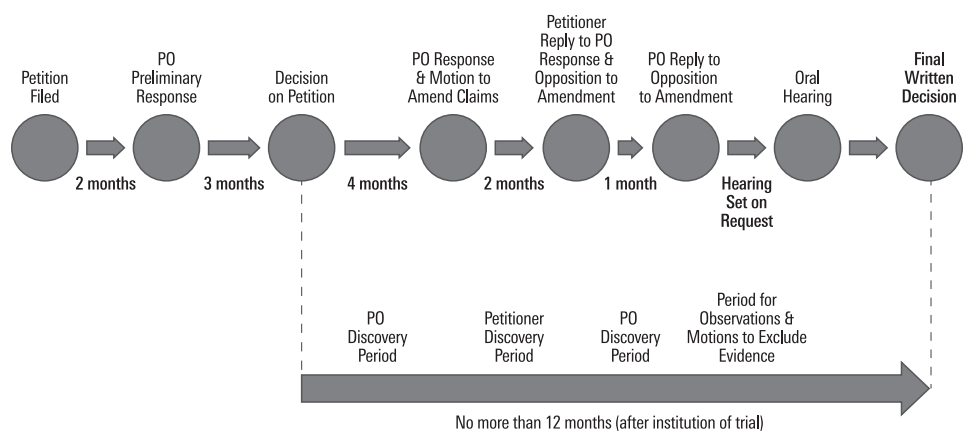
Various petitioners have argued that this definition was drafted to encompass patents “claiming activities that are financial in nature, incidental to a financial activity or complementary to a financial activity.”³ So, how broad is this definition?

The statute indicates that the focus is on

the claims, and PTAB decisions have indicated that with respect to the “financial prong,” the question is to determine whether challenged claims recite a method of *general utility* vs. *specific financial utility*.⁴ When claims recite a specific financial utility, the PTAB has found the patent satisfies this financial prong. In a CBM proceeding, claim terms are interpreted according to their broadest reasonable interpretation (BRI) in light of specification, and under the BRI standard (absent any special definitions) claim terms are given their ordinary and customary meaning as would be understood by one of ordinary skill in the art in the context of the entire disclosure. So, while the focus is on the claims, the specification should be reviewed as well. CBM patent review is not available for patents that claim generally useful technologies that *also happen* to be useful to financial applications.⁵ Simply put, the mere ability to use a claimed invention in a financial context, standing alone, does not *require* finding that financial prong has been met. The fact that the specification may describe invention as *capable of being used for commercial purposes* does not mean that claims are limited to such applications.⁶

Turning to recent CBM decisions, the PTAB has given some guidance. For instance, saving money is not considered a financial activity sufficient to confer CBM standing.⁷ Virtually every patented invention is intended to confer a financial benefit on its user, and so, the CBM statute cannot be read to be this broad.⁸ As another example, generating revenue is also

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not considered a financial activity sufficient to confer CBM standing.⁹ If ability to make money selling a claimed invention, or providing access to a claimed method, were sufficient, the “financial product or service” requirement would be rendered useless.¹⁰

Referring back to definition of a CBM patent, there is an exception provided by the AIA. CBM patents, by definition, *do not* include patents for “technological inventions.”¹¹ The USPTO has further defined “technological invention” rather circularly, namely that: (1) the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art, and (2) solves a technical problem using a technical solution.¹² To demonstrate that the technological exception applies, and thus, the patent is ineligible for CBM review, a patent owner may identify that a specific technical implementation of the claimed invention solves a technical problem, and not merely a business problem. The USPTO has issued a patent trial practice guide which provides examples that invoke the exception:

- (a) A patent that claims a novel and non-obvious hedging machine for hedging risk in the field of commodities trading.
- (b) A patent that claims a novel and non-obvious credit card reader for verifying the validity of a credit card transaction.¹³

Post-Grant Proceeding Statistics

As of this past winter (2016), there have been approximately 476 CBM petitions filed.¹⁴ Among those petitions, 215 trials were instituted.¹⁵ Thus, petitioners were about 54% successful in instituting a trial. When a trial was instituted, however, 82% of those trials resulted in all claims being found unpatentable.¹⁶ Why such high rates of claims being found invalid? The change in application of 35 U.S.C. § 101 relating to patentable subject matter is the main cause.

Moreover, there has been non-uniformity in the interpretation of the AIA statute within PTAB rulings. Some PTAB decisions find that if the claim is in any way related to financial activity, then the patent is eligible for CBM review. Other PTAB decisions require that the claim include specific limitations that make it clear that the invention is financial in nature. Why do we have such varying PTAB decisions?

One potential reason is that the makeup of the PTAB has changed in the past four years, increasing in size from about 75 judges to over 225 judges today. The increase in the number of judges lends itself to an increase in variance of opinion in interpreting and applying the AIA statute. In addition, there are few binding or precedential PTAB decisions, namely, only 35 total of which three are based on CBM decisions. All three precedential CBM decisions are procedural in nature, thereby providing little guidance for substantive CBM issues.

Recently, though, the Federal Circuit issued a decision in *Unwired Planet, LLC v. Google Inc.*, in which the Federal Circuit vacated the Board’s finding that the patent was

Although the PTAB has instituted CBM trials for patents that do not facially qualify as business method patents, recent Federal Circuit decisions have required a more strict reading of the AIA statute in instituting CBM trials.

patent ineligible under 35 U.S.C. § 101 because the PTAB used an overbroad definition in evaluating whether the challenged patent was eligible for CBM review.¹⁷ The Board stated that the proper inquiry “is whether the patent claims activities that are financial in nature, incidental to a financial activity, or complementary to a financial activity.”¹⁸ However, this “incidental” or “complementary” language is not found in the AIA statute. The Federal Circuit noted that the Board’s application of the “incidental to” and “complementary to” language from a PTO policy statement renders superfluous the limits Congress placed on the definition of a CBM patent.¹⁹ CBM patents are limited to those 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.”²⁰ The Federal Circuit elaborated with a few examples, namely, that a patent for a novel lightbulb that is found to work particularly well in bank vaults does not become a CBM patent because of its incidental or complementary use in banks, and likewise, it cannot be the case that a patent covering a method and corresponding apparatus becomes a CBM patent because its practice could involve a potential sale of a good or service.²¹

Thus, following the Federal Circuit’s decision, determining whether a patent is a CBM patent will no longer rely on whether a patent claims activities “incidental to” or “complementary to” a financial activity. This decision should cause the Board to focus more closely on specific claim language itself to only institute CBM review for actual business method patents that do not claim a technological invention.

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- 2 AIA § 18(d)(1).
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- 4 *Office Patent Trial Practice Guide*, 77 Fed. Reg. 48,734, 48,736 (Aug. 14, 2012).
- 5 *AT&T Mobility LLC v. Intellectual Ventures II LLC*, CBM2015-00185 (May 4, 2016).
- 6 *Qualtrics, LLC v. Opinionlab, Inc.*, CBM2016-00003 (April 13, 2016).
- 7 *BMC Software Inc. v. zIT Consulting GMBH*, CBM2016-00044 (August 23, 2016).
- 8 *Id.*
- 9 *CoreLogic, Inc. v. Boundary Solutions, Inc.*, CBM2016-00017 (May 24, 2016).
- 10 *Id.*
- 11 See 37 C.F.R. § 42.301(a) (“Covered business method patent means 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.”).
- 12 37 C.F.R. 42.301(b).
- 13 Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,763-64 (Aug. 14, 2012).
- 14 <https://www.uspto.gov/patents-application-process/appealing-patent-decisions/statistics/aia-trial-statistics>.
- 15 *Id.*
- 16 *Id.*
- 17 841 F.3d 1376 (Fed. Cir. 2016).
- 18 *Unwired Planet, LLC v. Google Inc.*, CBM2014-00006 (April 8, 2014).
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- 20 AIA § 18(d).
- 21 *Unwired Planet, LLC v. Google Inc.*, 841 F.3d 1376, 1382 (Fed. Cir. 2016).



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McDonnell Boehnen Hulbert & Berghoff LLP to Exhibit at 2017 BIO International Convention in San Diego



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McDonnell Boehnen Hulbert & Berghoff LLP will be participating as an exhibitor at the 2017 BIO International Convention ("BIO") set for June 19-22 in San Diego. We invite you to visit us at Booth #1728 in the exhibit hall to share your background and experience, meet our attorneys and learn more about our services.

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McDonnell Boehnen Hulbert & Berghoff LLP recognizes the ever-increasing importance of intellectual property. Our mission is to enhance the value of our clients' businesses by creating and defending their intellectual property assets. We have built our reputation by guiding our clients through the complex web of legal and technical issues that profoundly affect these assets. We are keenly aware of the trust placed in us by our clients—Fortune 100 corporations, universities, individuals, and start-up companies—and we always remain focused on their ultimate business goals.

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