

## Appeals Court Allows New USPTO Director to Reweigh Controversial Patent Claims and Continuation Rules

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In 2007 the U.S. Patent and Trademark Office (USPTO) sought to implement a set of patent regulations that would have sharply restricted the number of continuations, claims, and requests for continued examination that applicants may file. Despite strong public opposition to the rules, the USPTO urged the rules were needed to help curtail its growing backlog of applications. Individual inventor Triantafyllos Tafas and pharmaceutical giant GlaxoSmithKline filed suit in federal district court challenging the legality of the rules. The plaintiffs argued the rules would have devastating consequences to patent applicants, particularly in the pharmaceutical industry where long periods needed for drug discovery and development typically require many claims and several continuing applications to secure adequate patent protection.

Now, after two years of litigation over the patent rules and in the midst of a recent change of leadership at the USPTO, the parties have asked the U.S. Court of Appeals for the Federal Circuit to put on the brakes. IBM's former IP chief David Kappos was nominated by the President in June and confirmed by the Senate in late July as the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office. In court papers jointly submitted by the parties on July 24, the Federal Circuit was asked to stay the appeal for 60 days "to give the new Director . . . an opportunity to examine the rules at issue in this case and determine what course the USPTO should take in the future with respect to those rules, including whether to rescind the rules."<sup>2</sup> The court granted the motion on July 28.<sup>3</sup>

This closely-watched case already has taken several twists and turns. The plaintiffs were initially successful in their efforts to have the rules tossed out, first obtaining a preliminary injunction on October 31, 2007 that prevented the rules from taking effect the next day as scheduled. Several months later, the district court entered a permanent injunction and a final decision striking down the rules.<sup>4</sup> The government then appealed the district court's decision to the Federal Circuit. In March 2009, a three-judge panel issued a decision that largely reversed the lower court's ruling<sup>5</sup>—and shocked the patent community.

On July 6, the Federal Circuit granted a motion to rehear the appeal *en banc* (by the entire court), and vacated the earlier panel decision.<sup>6</sup> But before the court rehears the appeal, Director Kappos will have an opportunity to reexamine the unpopular rules and determine whether the agency should continue pursuing their enactment.

A central issue in the litigation is whether the rules are substantive or procedural. While Congress has granted the USPTO the authority to enact “procedural” rules to govern practice before the agency, earlier Federal Circuit decisions have held the USPTO does not possess substantive rulemaking authority. As the *Tafas* case has exemplified, the distinction between substantive and procedural rules is not easily quantified. Many in the patent community objected to the rules because they were admittedly aimed at reducing the number of applications filed, while Congress never intended the USPTO to make such policy determinations.

The district court ruled that the rules were impermissibly substantive because they affect the rights and obligations of patent applicants. The appeals court disagreed, finding that the rules were procedural because they affect only how applications are presented to the USPTO but not the underlying standards the agency applies in its decision to grant or deny a patent. The panel nevertheless found invalid a rule limiting applicants to two continuing applications because the rule directly conflicted with the patent laws. The panel upheld the remaining rules, including a rule requiring an onerous “examination support document” when more than five independent claims or 25 total claims are filed, and another rule limiting applicants to a single request for continued examination in a patent family. The rules would allow for additional requests for continued examination upon an applicant showing that the request could not have been presented earlier.

The now-vacated panel decision stopped just short of a complete victory for the government. The panel struck down the “two continuation” rule only on narrow grounds, leaving open the possibility that the USPTO might be permitted to restrict the number of continuations filed after a first-filed application is no longer pending. The panel also discounted the plaintiffs' arguments concerning uncertainties in the standards that would be applied for examination support documents and petitions for additional requests for continued examination, observing that applicants would have recourse to challenge any improprieties in the administration of those rules when the time comes.

It is interesting to note the three judges on the panel essentially voiced three different opinions on the central issue of whether the rules are substantive or procedural. In the majority opinion, Judge Prost concluded the rules are procedural because they regulate how matters are presented to the USPTO but do not change the underlying standards for obtaining a patent. Judge Bryson concurred in the result but urged it is not necessary to categorize the rules as substantive or procedural, but rather only determine whether the rules are within the bounds of the rulemaking authority granted by Congress. Judge Rader dissented, and would have affirmed the lower court's decision that all of the rules are impermissibly substantive.

During his first days in office, Director Kappos has been presented with an interesting dilemma. On one hand, he has the opportunity to pull the plug on a rules package that was met with near-universal opposition from the patent bar. Rescinding the rules at this stage could be expected to be a politically popular decision. But another aspect of *Tafas*—perhaps an even more significant aspect—is defining the scope of the USPTO's rulemaking authority going forward. If the USPTO allows the

appeal to proceed, the *en banc* Federal Circuit would have the opportunity to clarify the bounds between permissible and impermissible USPTO rules. Although proceeding with the *en banc* appeal runs the risk of ultimately getting a narrower definition of the USPTO's rulemaking authority at the end of the day, it could benefit the patent community by increasing clarity in this area—particularly given the fractured panel decision in this case that raised more questions than it answered.

It is difficult to predict whether Kappos will rescind the rules or allow the appeal to proceed. Although rescinding the rules would be popular with the patent bar, it might create some friction between Kappos and his new USPTO colleagues who shepherded the rules to this point. Other factors are likely at play. The agency that tried to enact regulations in 2007 to reduce the number of filings has since experienced significant losses in fee revenue due to a weak economy. So the USPTO's original justification for the enacting the rules appears to have diminished. In any event, the fact that the government has asked the court for additional time to consider this question seems to suggest there is a real possibility the rules might be withdrawn.

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<sup>2</sup> *Tafas v. Doll*, No. 08-01352, Consent Motion for Stay of En Banc Proceedings (Fed. Cir. July 24, 2009).

<sup>3</sup> *Tafas v. Doll*, No. 08-01352, Order (Fed. Cir. July 24, 2009).

<sup>4</sup> *Tafas v. Dudas*, 541 F. Supp. 2d 805 (E.D. Va. 2008). See Bloomberg Law Reports – Intellectual Property, Vol. 2, No. 15 (Apr. 14, 2008).

<sup>5</sup> *Tafas v. Doll*, 559 F.3d 1345 (Fed. Cir. 2009). See Bloomberg Law Reports – Intellectual Property, Vol. 3, No. 13 (Mar. 30, 2009).

<sup>6</sup> *Tafas v. Doll*, No. 08-01352, 2009 BL 144767 (Fed. Cir. July 6, 2009). See Bloomberg Law Reports – Intellectual Property, Vol. 3, No. 28 (July 13, 2009).