

**DEPARTMENT OF COMMERCE**

**Patent and Trademark Office**

**37 CFR Part 42**

**[Docket No. PTO-P-2011-0087]**

**RIN 0651-AC75**

**Transitional Program for Covered Business Method Patents - Definitions of  
Covered Business Method Patent and Technological Invention**

**AGENCY:** United States Patent and Trademark Office, Commerce.

**ACTION:** Final rule.

**SUMMARY:** The United States Patent and Trademark Office (Office or USPTO) is revising the rules of practice to implement the provision of the Leahy-Smith America Invents Act (“AIA”) that requires the Office to issue regulations for determining whether a patent is for a technological invention in a transitional post-grant review proceeding for covered business method patents. The provision of the AIA will take effect on September 16, 2012, one year after the date of enactment. The AIA provides that this

provision and any regulations issued under the provision will be repealed on September 16, 2020, with respect to any new petitions under the transitional program.

**DATES:** Effective Date: The changes in this final rule take effect on September 16, 2012.

Applicability Date: The changes in this final rule apply to any covered business method patent issued before, on, or after September 16, 2012.

**FOR FURTHER INFORMATION CONTACT:** Sally C. Medley, Administrative Patent Judge; Michael P. Tierney, Lead Administrative Patent Judge; Robert A. Clarke, Administrative Patent Judge; and Joni Y. Chang, Administrative Patent Judge; Board of Patent Appeals and Interferences, by telephone at (571) 272-9797.

**SUPPLEMENTARY INFORMATION:**

**Executive Summary:** Purpose: On September 16, 2011, the AIA was enacted into law (Pub. L. 112-29, 125 Stat. 284 (2011)). The purpose of the AIA and this final rule is to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs. The preamble of this notice sets forth in detail the definitions of the terms “covered business method patent” and “technological invention” that the Board will use in conducting transitional covered business method patent review proceedings. The USPTO is engaged in a transparent process to create a timely, cost-effective alternative to litigation. Moreover, this

rulemaking process is designed to ensure the integrity of the trial procedures. See 35 U.S.C. 326(b).

Summary of Major Provisions: This final rule sets forth the definitions of the terms “covered business method patent” and “technological invention” that the Office will use in conducting transitional covered business method patent review proceedings.

Costs and Benefits: This rulemaking is not economically significant, but is significant, under Executive Order 12866 (Sept. 30, 1993), as amended by Executive Order 13258 (Feb. 26, 2002) and Executive Order 13422 (Jan. 18, 2007).

**Background:** To implement sections 6 and 18 of the AIA, the Office published the following notices of proposed rulemaking: (1) Rules of Practice for Trials before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions, 77 FR 6879 (Feb. 9, 2012), to provide a consolidated set of rules relating to Board trial practice for inter partes review, post-grant review, derivation proceedings, and the transitional program for covered business method patents, and judicial review of Board decisions by adding new parts 42 and 90 including a new subpart A to title 37 of the Code of Federal Regulations (RIN 0651-AC70); (2) Changes to Implement Inter Partes Review Proceedings, 77 FR 7041 (Feb. 10, 2012), to provide rules specific to inter partes review by adding a new subpart B to 37 CFR part 42 (RIN 0651-AC71); (3) Changes to Implement Post-Grant Review Proceedings, 77 FR 7060 (Feb. 10, 2012), to provide rules specific to post-grant review by adding a new subpart C to 37 CFR part

42 (RIN 0651-AC72); (4) Changes to Implement Transitional Program for Covered Business Method Patents, 77 FR 7080 (Feb. 10, 2012), to provide rules specific to the transitional program for covered business method patents by adding a new subpart D to 37 CFR part 42 (RIN 0651-AC73); (5) Transitional Program for Covered Business Method Patents—Definition of Technological Invention, 77 FR 7095 (Feb. 10, 2012), to add a new rule that sets forth the definition of technological invention for determining whether a patent is for a technological invention for purposes of the transitional program for covered business method patents (RIN 0651-AC75); and (6) Changes to Implement Derivation Proceedings, 77 FR 7028 (Feb. 10, 2012), to provide rules specific to derivation proceedings by adding a new subpart E to 37 CFR part 42 (RIN 0651-AC74).

Additionally, the Office published a Patent Trial Practice Guide for the proposed rules in the Federal Register to provide the public an opportunity to comment. Practice Guide for Proposed Trial Rules, 77 FR 6868 (Feb. 9, 2012) (Request for Comments) (hereafter “Practice Guide” or “Office Patent Trial Practice Guide”). The Office envisions publishing a revised Patent Trial Practice Guide for the final rules. The Office also hosted a series of public educational roadshows, across the country, regarding the proposed rules for the implementation of the AIA.

In response to the notices of proposed rulemaking and the Practice Guide notice, the Office received 251 submissions offering written comments from intellectual property organizations, businesses, law firms, patent practitioners, and others, including a United States senator who was a principal author of section 18 of the AIA. The comments

provided support for, opposition to, and diverse recommendations on the proposed rules. The Office appreciates the thoughtful comments, and has considered and analyzed the comments thoroughly. The Office's responses to the comments are provided in the 124 separate responses based on the topics raised in the 251 comments in the Response to Comments section infra.

Section 18 of the AIA provides that the Director may institute a transitional proceeding only for a patent that is a covered business method patent. In particular, section 18(d)(1) of the AIA specifies that a covered business method patent is 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.

Section 18(d)(2) of the AIA provides that the Director will issue regulations for determining whether a patent is for a technological invention. Consistent with these statutory provisions, this rulemaking provides regulations for determining whether a patent is for a technological invention. The AIA provides that the transitional program for the review of covered business method patents will take effect on September 16, 2012, one year after the date of enactment, and applies to any covered business method patent issued before, on, or after September 16, 2012. Section 18 of the AIA and the regulations issued under this provision will be repealed on September 16, 2020. Section 18 of the AIA and the regulations issued will continue to apply after September 16, 2020, to any petition for a transitional proceeding that is filed before September 16, 2020.

Pursuant to section 18(d) of the AIA, the Office is prescribing regulations to set forth the definitions of the terms “covered business method patent” and “technological invention” in its regulation. In February 2012, the Office published two notices proposing changes to 37 CFR chapter I to implement sections 18(d)(1) and (d)(2) of the AIA. See Changes to Implement Transitional Program for Covered Business Method Patents, 77 FR 7080 (Feb. 10, 2012) and Transitional Program for Covered Business Method Patents—Definition of Technological Invention, 77 FR 7095 (Feb. 10, 2012).

This final rule revises the rules of practice to implement section 18(d)(1) of the AIA that provides the definition of the term “covered business method patent” and section 18(d)(2) of the AIA that provides that the Director will issue regulations for determining whether a patent is for a technological invention. This final rule sets forth the definitions in new subpart D of 37 CFR 42, specifically in § 42.301.

This rulemaking is one of a series of rules that the Office is promulgating directed to the new trials that were created by the AIA. The Office, in a separate rulemaking, revises the rules of practice to provide a consolidated set of rules relating to Board trial practice, adding part 42, including subpart A (RIN 0651-AC70). More specifically, subpart A of part 42 sets forth the policies, practices, and definitions common to all trial proceedings before the Board. In another separate rulemaking, the Office revises the rules of practice to implement the provisions of the AIA for the transitional program for covered business method patents (RIN 0651-AC71). In particular, that separate final rule adds a new

subpart D to 37 CFR part 42 to provide rules specific to transitional post-grant review of covered business method patents. Further, that separate final rule adds a new subpart B to 37 CFR part 42 to provide rules specific to inter partes review, and a new subpart C to 37 CFR part 42 to provide rules specific to post-grant review. The notices are available on the USPTO Internet Web site at [www.uspto.gov](http://www.uspto.gov).

### **Discussion of Specific Rules**

Title 37 of the Code of Federal Regulations, Chapter I, Part 42, Subpart D, Section 42.301, entitled “Definitions” is added as follows:

Section 42.301: Section 42.301 provides definitions specific to covered business method patent reviews.

Section 42.301(a) adopts the definition for covered business method patents provided in section 18(d)(1) of the AIA. Specifically, the definition provides that 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.

Section 42.301(b) sets forth the definition for technological invention for covered business method patent review proceedings. The definition of technological invention provides that in determining whether a patent is for a technological invention solely for purposes of the Transitional Program for Covered Business Methods, the following will

be considered on a case-by-case basis: whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art, and solves a technical problem using a technical solution. The Office recognizes that, in prescribing a regulation to define technological invention, the Office must consider the efficient administration of the proceedings by the Office, and its ability to complete them timely, consistent with 35 U.S.C. 326(b).

The definition is consistent with the legislative history of the AIA. See, e.g., 157 CONG. REC. S1364 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer) (“The ‘patents for technological inventions’ exception only excludes those patents whose novelty turns on a technological innovation over the prior art and are concerned with a technical problem which is solved with a technical solution and which requires the claims to state the technical features which the inventor desires to protect.”); 157 CONG. REC. H4497 (daily ed. June 23, 2011) (statement of Rep. Smith) (“Patents for technological inventions are those patents whose novelty turns on a technological innovation over the prior art and are concerned with a technical problem which is solved with a technical solution.”); 157 CONG. REC. S5428 (daily ed. Sept. 8, 2011) (statement of Sen. Coburn) (“Patents for technological inventions are those patents whose novelty turns on a technological innovation over the prior art and are concerned with a technical problem which is solved with a technical solution.”).



## **Response to Comments**

The Office received about 47 written submissions of comments (from intellectual property organizations, businesses, law firms, patent practitioners, and others) in response to the proposed definitions. The Office appreciates the thoughtful comments, and has considered and analyzed the comments thoroughly. The Office's responses to the comments that are germane to the definitions adopted in this final rule are provided below:

### Section 42.301(a)

*Comment 1:* Several comments suggested that the Office interpret “financial product or service” broadly.

*Response:* The definition set forth in § 42.301(a) for covered business method patent adopts the definition for covered business method patent provided in section 18(d)(1) of the AIA. In administering the program, the Office will consider the legislative intent and history behind the public law definition and the transitional program itself. For example, the legislative history explains that the definition of covered business method patent was drafted to encompass patents “claiming activities that are financial in nature, incidental to a financial activity or complementary to a financial activity.” 157 CONG. REC. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer). This remark tends to support the notion that “financial product or service” should be interpreted broadly.

*Comment 2:* One comment noted that there is no proposed definition of the term “financial product or service” and suggested amending the proposed rule for covered business method patent to include two factors to consider on a case-by-case basis: (1) whether the claimed subject matter is directed to an agreement between two parties stipulating the movement of money or other consideration now or in the future; and (2) whether the claimed subject matter is particular to the characteristics of financial institutions. Still other comments supported the Office’s definition of a covered business method patent as is.

*Response:* The definition suggested by the comment for “financial product or service” is not adopted. That suggestion would appear to limit the scope of the definition of covered business method patents provided in section 18(d)(1) of the AIA, particularly the second prong of the proposed definition. In addition, the Office has considered the comment seeking to change the definition of a covered business method patent against the comments in support of the definition set forth in the proposed § 42.301(a) and in section 18(d)(1) of the AIA. Upon consideration of the diverging comments, and the definition provided in the public law, the Office adopts proposed § 42.301(a), in this final rule, without any alterations.

*Comment 3:* One comment suggested that the Office should clarify that the term “financial product or service” should be limited to the products or services of the financial services industry. Still another comment stated that the term “financial product or service” is not limited to the products of the financial services industry.

*Response:* The suggestion to clarify that the term “financial product or service” is limited to the products or services of the financial services industry is not adopted. Such a narrow construction of the term would limit the scope of the definition of covered business method patents beyond the intent of section 18(d)(1) of the AIA. For example, the legislative history reveals that “[t]he plain meaning of ‘financial product or service’ demonstrates that section 18 is not limited to the financial services industry.” 157 CONG. REC. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer). This remark tends to support the notion that “financial product or service” is not limited to the products or services of the financial services industry.

*Comment 4:* One comment suggested that the Office revise proposed § 42.301(a) to clarify that the determination of a “covered business method patent” would not be satisfied by merely reciting an operating environment related to data processing or management of a financial product or service, but that eligibility should be determined by what the patent claims.

*Response:* This suggestion is not adopted. The definition set forth in § 42.301(a) adopts the definition for a covered business method patent provided in section 18(d)(1) of the AIA. Specifically, the statutory language states that a covered business method patent is “a patent that claims a method or corresponding apparatus for performing data processing . . . , except that the term does not include patents for technological

inventions.” (Emphasis added.) Consistent with the AIA, the definition set forth in § 42.301(a), as adopted in this final rule, is based on what the patent claims.

*Comment 5:* One comment suggested that the proposed definition is based on Class 705 of the United States Classification System and that the definition should be amended to include a specific reference to Class 705, including systems.

*Response:* The definition set forth in § 42.301(a) adopts the definition for covered business method patents provided in section 18(d)(1) of the AIA. The definition set forth in § 42.301(a) will not be altered to make reference to Class 705 of the United States Classification System since doing so would be contrary to the definition set out in the public law. The legislative history reveals that

[o]riginally, class 705 was used as the template for the definition of business method patents in section 18. However, after the bill passed the Senate, it became clear that some offending business method patents are issued in other sections. So the House bill changes the definition only slightly so that it does not directly track the class 705 language.

157 CONG. REC. S5410 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer). This remark tends to support the notion that the definition of a covered business method patent should not be changed to refer to Class 705 of the United States Classification System. In addition, the Office received comments in support of the definition set forth in the proposed rule. Upon considering the AIA and legislative history, as well as those supporting comments in favor of the definition against the comment to change the definition, the Office has decided to adopt proposed § 42.301(a) in this final rule, without altering the proposed definition.

Section 42.301(b)

*Comment 6:* One comment asked whether it is the novel and unobvious technological feature that provides the technical solution to a technical problem or that the novel and unobvious technological feature does not necessarily need to be the technical solution to the technical problem.

*Response:* The definition in § 42.301(b) includes considering whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art and solves a technical problem using a technical solution. The reference “and solves a technical problem using a technical solution” is with respect to “the claimed subject matter as a whole.”

*Comment 7:* One comment suggested that the definition is not actually a definition as it only states two factors to be considered, and that the Office did not have to use legislative history for the rule because Congress instructed the Office to use its own expertise. Still another comment suggested that the Office should not have based the definition on the legislative history.

*Response:* Section 18(d)(2) of the AIA provides that “[t]o assist in implementing the transitional proceeding authorized by this subsection, the Director shall issue regulations for determining whether a patent is for a technological invention.” Consistent with the AIA, the definition for technological invention, as adopted in this final rule, sets forth

what is to be considered in determining whether a patent is for a technological invention. The Office disagrees that it should not have looked to the legislative history in formulating the definition. The Office, in determining the best approach for defining the term “technological invention,” concluded that the relied upon portion of the legislative history represented the best policy choice.

*Comment 8:* Several comments sought clarification on whether a single claim can make the patent a covered business method patent or whether it is the subject matter as a whole that is considered.

*Response:* The definition set forth in § 42.301(b) for a covered business method patent adopts the definition for covered business method patents provided in section 18(d)(1) of the AIA. Specifically, the language states that a covered business method patent is “a patent that claims a method or corresponding apparatus for performing data processing . . . , except that the term does not include patents for technological inventions.” (Emphasis added.) Consistent with the AIA, the definition, as adopted, therefore is based on what the patent claims. Determination of whether a patent is a covered business method patent will be made based on the claims. Similarly, determination of whether a patent is to a technological invention will be determined based on the claims of the patent. A patent having one or more claims directed to a covered business method is a covered business method patent for purposes of the review, even if the patent includes additional claims.

*Comment 9:* Several comments suggested that the definition should not be based on novelty or nonobviousness; some proposed a definition that eliminates “novel and unobvious.” Other comments fully supported the proposed definition set forth in the proposed rule.

*Response:* Under § 42.301(b), in determining whether a patent is for a technological invention solely for purposes of the Transitional Program for Covered Business Methods, the Office will consider whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art. Therefore, the definition in § 42.301(b) is consistent with the AIA and the legislative history. Moreover, several comments supported the definition set forth in proposed § 42.301(b). Upon considering the AIA and the legislative history as well as the supporting comments in favor of the definition balanced against the comments to change the definition, the Office adopts the definition in proposed § 42.301(b), in this final rule, without alterations. Therefore, the Office did not adopt a definition that is not based on novelty or nonobviousness.

*Comment 10:* Several comments proposed using the standards of patent subject matter eligibility under 35 U.S.C. 101 to define whether a patent is for a technological invention. Still other comments opposed using a 35 U.S.C. 101 standard. Moreover, several comments fully supported the definition in proposed § 42.301(b).

*Response:* The definition in proposed § 42.301(b) is consistent with the AIA and the legislative history as discussed above. The suggestions to change the definition using the standards of patent subject matter eligibility under 35 U.S.C. 101 will not be adopted. Several comments supported the definition set forth in proposed § 42.301(b) while other comments opposed changing the definition based on the standards of patent subject matter eligibility under 35 U.S.C. 101. Upon considering the AIA and the legislative history as well as the comments in favor of the definition balanced against the comments to change the definition, the Office decided to adopt proposed § 42.301(b), in this final rule.

*Comment 11:* Several comments suggested applying the definition to limit reviews under the program while others suggested applying the definition not to limit reviews under the program.

*Response:* The Office will consider whether a patent is for a technological invention on a case-by-case basis and will take into consideration the facts of a particular case. Therefore, the Office did not adopt the suggestions to apply a definition to limit, or not to limit, reviews without considering the factors as applied to all of the reviews.

*Comment 12:* Several comments stated that the definition in proposed § 42.301(b) is confusing, circular, and ambiguous. Other comments fully supported the definition set forth in the proposed rule.



*Response:* The definition adopted in § 42.301(b) is based upon the legislative history of the AIA. The Office believes that the definition provides appropriate guidance to the public, taken in light of the legislative history, as well as the Supreme Court case law on patent eligible subject matter and the Office's existing guidelines. See, e.g., Interim Guidance for Determining Subject Matter Eligibility for Process Claims in View of *Bilski v. Kappos*, 75 FR 43922 (Jul. 27, 2010). The Office will consider whether a patent is for a technological invention on a case-by-case basis and will take into consideration the facts of a particular case. As applied to a particular case, only one result will occur. Moreover, additional guidance will be provided to the public as decisions are rendered applying the definition as they become available. Many comments fully supported the definition. Upon considering the AIA and the legislative history as well as the supporting comments in favor of the definition balanced against the comments to change the definition, the Office decided to adopt proposed § 42.301(b) in this final rule, and not to alter the definition as requested.

*Comment 13:* Several comments proposed various different definitions for technological invention. Other comments fully supported the definition set forth in the proposed rule.

*Response:* The Office appreciates and has considered the suggested definitions. Although the definitions have been considered, the Office is not adopting the definitions suggested in the comments. Specifically, the Office believes that the definition in § 42.301(b) is consistent with the legislative history of the AIA and more narrowly tailors the reviews that are instituted in view of that history. Moreover, several comments

supported the definition set forth in the proposed rule. Upon considering the comments in favor of the definition balanced against those comments to change the definition, the Office has decided to adopt proposed § 42.301(b), in this final rule, and not alter the definition as requested.

*Comment 14:* One comment supported the definition set forth in proposed § 42.301(b), but encouraged the Office to include in the preamble of the final rule notice a reference to remarks made by Senator Durbin from the legislative history. One other comment suggested that the remarks of Senators Schumer and Coburn and Representative Smith should not be given controlling weight and in any event their remarks should be balanced against the remarks of others, including Senator Durbin. Both comments refer to the remarks made by Senator Durbin on September 8, 2011. 157 CONG. REC. S5433 (daily ed. Sept. 8, 2011).

*Response:* The Office appreciates the comments. However, the specific remarks of Senator Durbin to which the Office is directed will not be included in the preamble as suggested. In the testimony to which the Office is directed, Senator Durbin provided broad examples of the kinds of patents that would not be subject to a transitional covered business method patent review. Although the comments are instructive, the comments identify very specific examples that are not necessarily suited for the preamble but are better addressed when reviewing the merits of a case.

*Comment 15:* Several comments suggested that the case-by-case approach is not specific enough and could create uncertainty. Other comments fully supported the definition set forth in proposed § 42.301(b).

*Response:* The definition in proposed § 42.301(b) was drafted to ensure flexibility in administering the transitional covered business method review program. In determining whether a patent is for a technological invention, the particular facts of a case will be considered. Additionally, more information on how the rule applies to specific factual situations will be available as decisions are issued. Therefore, the Office adopts proposed § 42.301(b) in this final rule without any alteration.

#### Office Patent Trial Practice Guide

*Comment 16:* Several comments suggested that the Office provide additional examples for what is a covered business method patent and what is a technological invention.

*Response:* The Office agrees that more examples would be helpful to the public. The Office anticipates publishing written decisions as soon as practical, after which more examples likely will be provided in the Office Patent Trial Practice Guide. The Office will make cases publicly available to provide more guidance in the future.

*Comment 17:* One comment stated that the provided examples in the Practice Guide for Proposed Trial Rules are inconsistent because a hedging machine and credit card reader are computers using known technologies.

*Response:* The Office disagrees that the examples of covered business method patents that are subject to a covered business method patent review are inconsistent with the examples of patents that claim a technological invention. The Practice Guide for Proposed Trial Rules provides examples of covered business method patents that are subject to a covered business method patent review. One example is a patent that claims a method for hedging risk in the field of commodities trading. Another example is a patent that claims a method for verifying validity of a credit card transaction. Still other examples are given of a patent that claims a technological invention that would not be subject to a covered business method patent review. One example is a patent that claims a novel and nonobvious hedging machine for hedging risk in the field of commodities trading. Another example is a patent that claims a novel and nonobvious credit card reader for verifying the validity of a credit card transaction. The comment assumes that in all examples the machine or card reader is a computer using known technologies. However, no such qualifications were provided in the examples.

### **Rulemaking Considerations**

The rulemaking considerations for the series of final rules implementing the administrative patent trials as required by the AIA have been considered together and are based upon the same assumptions, except where differences between the regulations and proceedings that they implement require additional or different information. Notably, this final rule is directed to the covered business method patent provision, and therefore, does not depend on or discuss the responses or information related to inter partes reviews,

post-grant reviews other than covered business method patent reviews, and derivations. This final rule also provides the alternatives considered for the technological invention for the purposes of the covered business method patent review, provided in section B(6) below.

**A. Administrative Procedure Act (APA):** This final rule revises the rules of practice concerning the procedure for requesting a covered business method patent review. The changes being adopted in this notice do not change the substantive criteria of patentability. These changes involve rules of agency practice, including related standards. See, e.g., 35 U.S.C. 316(a)(5), as amended. These rules are and procedural and/or interpretive rules. See *Bachow Commc'ns Inc. v. FCC*, 237 F.3d 683, 690 (D.C. Cir. 2001) (rules governing an application process are procedural under the Administrative Procedure Act); *Inova Alexandria Hosp. v. Shalala*, 244 F.3d 342, 350 (4th Cir. 2001) (rules for handling appeals were procedural where they did not change the substantive requirements for reviewing claims); *Nat'l Org. of Veterans' Advocates v. Sec'y of Veterans Affairs*, 260 F.3d 1365, 1375 (Fed. Cir. 2001) (rule that clarifies interpretation of a statute is interpretive); *JEM Broad. Co. v. F.C.C.*, 22 F.3d 320, 328 (D.C. Cir. 1994) (The rules are not legislative because they do not

“foreclose effective opportunity to make one’s case on the merits”).

Moreover, section 18(d)(2) of the AIA requires the Director to prescribe regulations for determining whether a patent is for a technological invention.

Accordingly, prior notice and opportunity for public comment are not required pursuant to 5 U.S.C. 553(b) or (c) (or any other law), and thirty-day advance publication is not required pursuant to 5 U.S.C. 553(d) (or any other law). See Cooper Techs. Co. v. Dudas, 536 F.3d 1330, 1336-37 (Fed. Cir. 2008) (stating that 5 U.S.C. 553, and thus 35 U.S.C. 2(b)(2)(B), does not require notice and comment rule making for “interpretative rules, general statements of policy, or rules of agency organization, procedure, or practice” ) (quoting 5 U.S.C. 553(b)(A)); U.S. v. Gould, 568 F.3d 459, 476 (4<sup>th</sup> Cir. 2009) (“The APA also requires publication of any substantive rule at least 30 days before its effective date, 5 U.S.C. § 553(d), except where the rule is interpretive . . . .”). The Office, however, published these proposed changes for comment as it sought the benefit of the public’s views on the Office’s proposed implementation of these provisions of the AIA. See Changes to Implement Transitional Program for Covered Business Method Patents, 77 FR 7080 (Feb. 10, 2012) (notice of proposed rulemaking) and Transitional Program for Covered Business Method Patents—Definition of Technological Invention, 77 FR 7095 (Feb. 10, 2012) (notice of proposed rulemaking).

The Office received one written submission of comments from the public regarding the Administrative Procedure Act (APA). Each component of that comment directed to the APA is addressed below.

*Comment 18:* One comment suggested that almost all of the proposed regulations were legislative and not interpretive rules. That leads the USPTO to omit required steps in the rulemaking process.

*Response:* At the outset, it should be noted that the Office did not omit any steps in the rulemaking process. Even though not legally required, the Office published notices of proposed rulemaking in the Federal Register, solicited public comment, and fully considered and responded to comments received. Although the Office sought the benefit of public comment, these rules are procedural and/or interpretive. Stevens v. Tamai, 366 F3d. 1325, 1333-34 (Fed. Cir. 2004) (upholding the Office's rules governing the procedure in patent interferences). The final written decisions on patentability which conclude the reviews will not be impacted by the regulations, adopted in this final rule, as the decisions will be based on statutory patentability requirements, e.g., 35 U.S.C. 101 and 102.

*Comment 19:* One comment suggested that, even if the rules are merely procedural, reliance on Cooper Techs. v. Dudas was not appropriate and therefore notice and comment was required.

*Response:* These rules are consistent with the AIA requirements to prescribe regulations to set forth standards and procedures. The rules are procedural and/or interpretative. Stevens v. Tamai, 366 F.3d. 1325, 1333-34 (Fed. Cir. 2004) (upholding the Office’s rules governing the procedure in patent interferences). The Office nevertheless published notices of proposed rulemaking in the Federal Register, solicited public comment, and fully considered and responded to comments received. In both the notice of proposed rulemaking and this final rule, the Office cites Cooper Techs. Co v. Dudas, 536 F.3d 1330, 1336, 37 (Fed. Cir. 2008), for the proposition that 5 U.S.C. 553, and thus 35 U.S.C. 2(b)(2)(B), does not require notice and comment rulemaking for “interpretive rules, general statement of policy, or rules of agency organization, procedure or practice.” The Office’s reliance on Cooper Technologies is appropriate and remains an accurate statement of administrative law. In any event, the Office sought the benefit of public comment on the proposed rules and has fully considered and responded to the comments received.

## **B. Final Regulatory Flexibility Act Analysis:**

The Office estimates that 50 petitions for covered business method patent review will be filed each year in fiscal years 2013-2015. Fiscal year 2013 will be the first fiscal year in which the review proceeding will be available for an entire fiscal year.

The estimated number of covered business method patent review petitions is based on the number of inter partes reexamination requests filed in fiscal year 2011 for patents having an original classification in Class 705 of the United States Patent Classification System.



Class 705 is the classification for patents directed to data processing in the following areas: financial, business practice, management, or cost/price determination. See

Class 705 Data Processing: Financial, Business Practice, Management, or Cost/Price Determination (Jan. 2012), available at

<http://www.uspto.gov/web/patents/classification/uspc705/sched705.pdf>.

The following is the class definition and description for Class 705:

This is the generic class for apparatus and corresponding methods for performing data processing operations, in which there is a significant change in the data or for performing calculation operations wherein the apparatus or method is uniquely designed for or utilized in the practice, administration, or management of an enterprise, or in the processing of financial data.

This class also provides for apparatus and corresponding methods for performing data processing or calculating operations in which a charge for goods or services is determined.

This class additionally provides for subject matter described in the two paragraphs above in combination with cryptographic apparatus or method.

Subclasses 705/300-348 were established prior to complete reclassification of all project documents. Documents that have not yet been reclassified have been placed in 705/1.1. Until reclassification is finished a complete search of 705/300-348 should include a search of 705/1.1. Once the project documents in 705/1.1 have been reclassified they will be moved to the appropriate subclasses and this note will be removed.

#### SCOPE OF THE CLASS

1. The arrangements in this class are generally used for problems relating to administration of an organization, commodities or financial transactions.

2. Mere designation of an arrangement as a “business machine” or a document as a “business form” or “business chart” without any

particular business function will not cause classification in this class or its subclasses.

3. For classification herein, there must be significant claim recitation of the data processing system or calculating computer and only nominal claim recitation of any external art environment. Significantly claimed apparatus external to this class, claimed in combination with apparatus under the class definition, which perform data processing or calculation operations are classified in the class appropriate to the external device unless specifically excluded therefrom.

4. Nominally claimed apparatus external to this class in combination with apparatus under the class definition is classified in this class unless provided for in the appropriate external class.

5. In view of the nature of the subject matter included herein, consideration of the classification schedule for the diverse art or environment is necessary for proper search.

See Classification Definitions (Jan. 2012), available at

<http://www.uspto.gov/web/patents/classification/uspc705/defs705.htm>.

Accordingly, patents subject to covered business method patent review are anticipated to be typically classifiable in Class 705. It is anticipated that the number of patents in Class 705 that do not qualify as covered business method patents would approximate the number of patents classified in other classes that do qualify.

The Office received 20 requests for inter partes reexamination of patents classified in Class 705 in fiscal year 2011. The Office is estimating the number of petitions for covered business method patent review to be 50 requests due to an expansion of the grounds for which review may be requested including subject matter eligibility grounds,

the greater coordination with litigation, and the provision that patents will be eligible for the proceeding regardless of filing date of the application which resulted in the patent.

The Office has updated its review of the entity status of patents for which inter partes reexamination was requested from October 1, 2000, to May 18, 2012. This data only includes filings granted a filing date, and does not include filings of improper requests.

The first inter partes reexamination was filed on July 27, 2001. A summary of that review is provided in Table 1 below. As shown by Table 1, patents known to be owned by a small entity represented 32.09% of patents for which inter partes reexamination was requested. Based on an assumption that the same percentage of patents owned by small entities will be subject to covered business method patent review, it is estimated that 16 petitions for covered business method patent review would be filed to seek review of patents owned by a small entity annually in fiscal years 2013-2015.

Table 1:

<p style="text-align: center;"><u>Inter partes</u> Reexamination Requests Filed with Parent Entity Type*</p>			
<p style="text-align: center;">* Small entity status determined by reviewing preexamination small entity indicator for the parent patent.</p>			
Fiscal Year	<u>Inter partes</u> Reexamination Requests Filed	Number Filed Where Parent Patent Is Small Entity Type	Percentage of Small Entity Type of Total
2012	226	85	37.61
2011	369	135	36.59
2010	255	89	34.9
2009	237	61	25.74

2008	155	51	32.9
2007	127	32	25.2
2006	61	16	26.23
2005	59	20	33.9
2004	26	5	19.23%
2003	21	12	57.14%
2002	4	1	25.00%
2001	1	0	0.00%
	1315	422	32.09

The 16 petitions estimated to be filed annually involve only a minute fraction of the total of approximately 375,000 patents in force that are owned by small entities.

Based on the number of patents issued during fiscal years 1995 through 1999 that paid the small entity third stage maintenance fee, the number of patents issued during fiscal years 2000 through 2003 that paid the small entity second stage maintenance fee, the number of patents issued during fiscal years 2004 through 2007 that paid the small entity first stage maintenance fee, and the number of patents issued during fiscal years 2008 through 2011 that paid a small entity issue fee, there are approximately 375,000 patents owned by small entities in force as of October 1, 2011.

Furthermore, the Office recognizes that there would be an offset to this number for patents that expire earlier than 20 years from their filing date due to a benefit claim to an earlier application or due to a filing of a terminal disclaimer. The Office likewise recognizes that there would be an offset in the opposite manner due to the accrual of patent term extension and adjustment. The Office, however, does not maintain data on the date of expiration by operation of a terminal disclaimer. Therefore, the Office has not adjusted the estimate of 375,000 patents owned by small entities in force as of October 1, 2011. While the Office maintains information regarding patent term extension and adjustment accrued by each patent, the Office does not collect data on the expiration date of patents that are subject to a terminal disclaimer. As such, the Office has not adjusted the estimated of 375,000 patents owned by small entities in force as of October 1, 2011, for accrual of patent term extension and adjustment, because in view of the incomplete

terminal disclaimer data issue, any adjustment would be incomplete would be administratively burdensome to estimate. Thus, it is estimated that the number of small entity patents in force in fiscal years 2013-2015 will be approximately 375,000.

Based on the estimated number of patents in force, the number of small entity-owned patents impacted by covered business method patent review annually in fiscal years 2013-2015 (16 patents) would be less than 0.005% (16/375,000) of all patents in force that are owned by small entities.

**1. Description of the Reasons That Action by the Office is Being Considered:** The Office is revising the rules of practice to implement the transitional program for covered business method patent review provisions of the AIA, which take effect September 16, 2012. Pub. L. 112-29, § 6(f), 125 Stat. 284, 311 (2011). The AIA requires the Office to issue regulations for determining whether a patent is for a technological invention in a transitional post-grant review proceeding for covered business method patents.

**2. Statement of the Objectives of, and Legal Basis for, the Final Rule:** The final rule is part of a series of rules that implement covered business method patent review as authorized by the AIA. Specifically the final rule provides a definition for determining whether a patent is for a technological invention for use in a transitional post-grant review proceeding for covered business method patents. The AIA requires that the Director prescribe rules for the covered business method patent reviews that result in a

final determination not later than one year after the date on which the Director notices the institution of a proceeding. The one-year period may be extended for not more than six months if good cause is shown. See 35 U.S.C. 326(a)(11). The AIA also requires that the Director, in prescribing rules for covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete the instituted proceedings timely. See 35 U.S.C. 326(b). Consistent with the time periods provided in 35 U.S.C. 326(a)(11), those final rules are designed to result in a final determination by the Patent Trial and Appeal Board within one year of the notice of initiation of the review, except where good cause is shown to exist. This one-year review will enhance the economy and improve the integrity of the patent system and the efficient administration of the Office.

**3. Statement of significant issues raised by the public comments in response to the IRFA and the Office's response to such issues.**

The Office published IRFA analyses to consider the economic impact of the proposed rules on small entities, including an IRFA analysis for covered business methods. See Transitional Program for Covered Business Method Patents-Definition of Technological Invention, 77 FR 7095, 7097-7105 (Feb. 10, 2012).

The Office received one written submission of comments from the public concerning the Regulatory Flexibility Act, which was relevant to all three final rulemakings concerning



contested cases. Each component of that comment directed to the Regulatory Flexibility Act is addressed below.

*Comment 20:* One comment argued that non-office costs and burden should include the burden on small entity patent owners, petitioners, and licensees, as well as settlement burdens, disruption of businesses, or effects on investment, business formation or employment. The comment further argued that prophylactic application steps (e.g., filing of reissue applications) were not considered and that the offsets for inter partes reexamination's elimination were not appropriate.

*Response:* As explained in the notice of proposed rulemaking, the Office notes that inter partes reexamination is the appropriate baseline for estimating economic impacts because the use or outcome of the prior reexamination process and the new trial are largely the same. See OMB Circular A4, (e)(3). The Office estimated that the same number of patents would be subject to inter partes review as would have been subject to inter partes reexamination. The comment did not argue that this estimate was unreasonable or provide an alternative estimate. Considering the similarities in the grounds of review and the number of patents subject to the proceedings, it is anticipated that the existing inter partes reexamination process, if not eliminated for new filings, would have had similar impact on the economy as the new review proceedings and therefore the impacts noted in the comment would simply replace existing analogous impacts and effects in inter partes reexamination. The comment argues that no offset for the replaced process should be considered although OMB guidance provides otherwise. See OMB Circular A4.

Additionally, although the comment argues that the new proceedings may result in patent owners taking additional prophylactic measures that would have their own burdens for small businesses, any patent owner motivated by the regulations adopted in this final rule to take prophylactic application steps would similarly have been motivated to take those steps under the former inter partes reexamination regime. Thus, the burdens on small entity patent owners, petitioners, and licensees, as well as settlement burdens, disruption of businesses, or effects on investment, business formation or employment that are caused by the final rules would have been similarly caused by the former inter partes reexamination proceedings as the same effects and impacts are caused by the two types of proceedings.

Additionally, the Office's estimates of the burden on small entities are likely overstated. As noted in the notice of proposed rulemaking, it is anticipated that the current significant overlap between district court litigation and inter partes reexamination may be reduced by improvement in the coordination between the two processes. See Rules of Practice for Trials before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions, 77 FR at 6903. Similarly, it is anticipated that the public burden will be reduced because the longer duration of the inter partes reexamination process will be reduced owing to the anticipated shorter duration of the new procedure. Id.

*Comment 21:* A comment indicated that the underlying data for the 98.7 hours of judge time for an inter partes review proceeding was not provided.

*Response:* Based on the Office's experience involving similar proceedings, the Office estimates that, on average, an inter partes review proceeding will require 35 hours of judge time to make a decision on institution, 20 hours of judge time to prepare for and conduct hearings, 60 hours of judge time to prepare and issue a final decision, and 15 hours of judge time to prepare and issue miscellaneous interlocutory decisions. It is also estimated that 2.5% of proceedings will settle before a decision of whether to institute is made and another 2.5% of proceedings will terminate by patent owners filing a default judgment motion after institution. The Office estimates that 10% of proceedings will not be instituted and another 20% of proceedings will settle after institution. In settled cases it is estimated that 50% of the anticipated motions would not be filed. It should be appreciated that cases that terminate prior to the need to render a decision on institution, that do request an oral hearing or do not require a final decision because of an earlier termination, result in an average judge time per proceeding which is less than the time needed to perform all possible steps in a proceeding.

#### **4. Description and Estimate of the Number of Affected Small Entities:**

A. Size Standard and Description of Entities Affected. The Small Business Administration's (SBA) small business size standards applicable to most analyses conducted to comply with the Regulatory Flexibility Act are set forth in 13 CFR 121.201. These regulations generally define small businesses as those with fewer than a specified maximum number of employees or less than a specified level of annual receipts for the

entity's industrial sector or North American Industry Classification System (NAICS) code. As provided by the Regulatory Flexibility Act, and after consultation with the Small Business Administration, the Office formally adopted an alternate size standard as the size standard for the purpose of conducting an analysis or making a certification under the Regulatory Flexibility Act for patent-related regulations. See Business Size Standard for Purposes of United States Patent and Trademark Office Regulatory Flexibility Analysis for Patent-Related Regulations, 71 FR 67109 (Nov. 20, 2006), 1313 Off. Gaz. Pat. Office 60 (Dec. 12, 2006). This alternate small business size standard is the SBA's previously established size standard that identifies the criteria entities must meet to be entitled to pay reduced patent fees. See 13 CFR 121.802. If patent applicants identify themselves on a patent application as qualifying for reduced patent fees, the Office captures this data in the Patent Application Location and Monitoring (PALM) database system, which tracks information on each patent application submitted to the Office.

Unlike the SBA's small business size standards set forth in 13 CFR 121.201, the size standard for USPTO is not industry-specific. Specifically, the Office's definition of small business concern for Regulatory Flexibility Act purposes is a business or other concern that: (1) meets the SBA's definition of a "business concern or concern" set forth in 13 CFR 121.105; and (2) meets the size standards set forth in 13 CFR 121.802 for the purpose of paying reduced patent fees, namely, an entity: (a) whose number of employees, including affiliates, does not exceed 500 persons; and (b) which has not assigned, granted, conveyed, or licensed (and is under no obligation to do so) any rights

in the invention to any person who made it and could not be classified as an independent inventor, or to any concern which would not qualify as a non-profit organization or a small business concern under this definition. See Business Size Standard for Purposes of United States Patent and Trademark Office Regulatory Flexibility Analysis for Patent-Related Regulations, 71 FR at 67112, 1313 Off. Gaz. Pat. Office at 63 (Dec. 12, 2006).

B. Overview of Estimates of Number of Entities Affected. The rules will apply to any small entity that either files a petition for covered business method patent review or owns a patent subject to such review. As discussed above (which is incorporated here), it is anticipated that 50 petitions for covered business method patent review will be filed annually in fiscal years 2013-2015. The Office has reviewed the percentage of patents owned by small entities for which inter partes reexamination was requested from October 1, 2000, to May 18, 2012. A summary of that review is provided in Table 1 above. As demonstrated by Table 1, patents known to be owned by a small entity represent 32.09% of patents for which an inter partes reexamination was requested. Based on an estimation that the same percentage of patents owned by small entities will be subject to the new review proceedings, it is estimated that 16 patents owned by small entities would be affected by covered business method patent review annually, and it is also estimated that no more than that number of small entities will file a petition for review.

The USPTO estimates that 2.5% of patent owners will file a request for adverse judgment (e.g., a default judgment) prior to a decision to institute and that another 2.5% will file a

request for adverse judgment or fail to participate after initiation. Specifically, an estimated two patent owners will annually file a request for adverse judgment or fail to participate after institution in covered business method proceedings. Based on the percentage of small entity-owned patents that were the subject of inter partes reexamination (32.09%) from October 1, 2000, to May 18, 2012, it is estimated that one small entity will annually file such request or fail to participate in covered business method patent review.

Under the final rules, prior to determining whether to institute a review, the patent owner may file an optional patent owner preliminary response to the petition. Given the new time period requirements to file a petition for review before the Board relative to patent enforcement proceedings and the desirability of avoiding the cost of a trial and delays to related infringement actions, it is anticipated that 90% of petitions, other than those for which a request for adverse judgment is filed, will annually result in the filing of a patent owner preliminary response. Specifically, the Office estimates that 45 patent owners will file a preliminary response to a covered business method patent petition annually. Based on the percentage of small entity-owned patents that were the subject of inter partes reexamination (32.09%), it is estimated that 14 small entities will annually file a preliminary response to a covered business method patent review petition filed in fiscal years 2013-2015.

Under the final rules, the Office will determine whether to institute a trial within three months after the earlier of: (1) the submission of a patent owner preliminary response,

(2) the waiver of filing a patent owner preliminary response, or (3) the expiration of the time period for filing a patent owner preliminary response. If the Office decides not to institute a trial, the petitioner may file a request for reconsideration of the Office's decision. In estimating the number of requests for reconsideration, the Office considered the percentage of inter partes reexaminations that were denied relative to those that were ordered (24 divided by 342, or 7%) in fiscal year 2011. See Reexaminations – FY 2011, [http://www.uspto.gov/patents/Reexamination\\_operational\\_statistic\\_through\\_FY2011Q4.pdf](http://www.uspto.gov/patents/Reexamination_operational_statistic_through_FY2011Q4.pdf). The Office also considered the impact of: (1) patent owner preliminary responses newly authorized in 35 U.S.C. 323; (2) the enhanced thresholds for instituting reviews set forth in 35 U.S.C. 324(a), which would tend to increase the likelihood of dismissing a petition for review; and (3) the more restrictive time period for filing a petition for review in 35 U.S.C. 325(b), which would tend to reduce the likelihood of dismissing a petition. Based on these considerations, it is estimated that approximately 10% of the petitions for review (5 divided by 49) would be dismissed annually.

Thus, the Office estimates that no more than five entities (two small entities) would be subject to a denial of the petition to initiate covered business method patent review annually. This estimate is based upon either the patent failing to meet the definition for technological invention or because the petitioner failed to meet the likelihood of success standard. Of the remaining 90% of petitions that proceed to trial, all entities (large or small) could be subject to the definition for technological invention since jurisdictional issues may be raised at any time.

During fiscal year 2011, the Office issued 21 decisions following a request for reconsideration of a decision on appeal in inter partes reexamination. The average time from original decision to decision on reconsideration was 4.4 months. Thus, the decisions on reconsideration were based on original decisions issued from July 2010 until June 2011. During this time period, the Office mailed 63 decisions on appeals in inter partes reexamination. See BPAI Statistics – Receipts and Dispositions by Technology Center, <http://www.uspto.gov/ip/boards/bpai/stats/receipts/index.jsp> (monthly data). Based on the assumption that the same rate of reconsideration (21 divided by 63 or 33.333%) will occur, the Office estimates that two requests for reconsideration (5 decisions not to institute multiplied by 33.333%) will be filed annually. Based on the percentage of small entity-owned patents that were the subject of inter partes reexamination (32.09%), it is estimated that annually one small entity will file a request for a reconsideration of a decision dismissing the petition for post-grant or covered business method patent review filed in fiscal years 2013-2015. Further, the Office estimates that it will issue 34 final written decisions for post-grant reviews, including cover business method patent reviews annually. Applying the same 33.333% rate, the Office estimates 11 requests for reconsiderations (34 multiplied by 33.333%) will be filed annually based on the final written decisions. Therefore, the Office estimates a total of 13 (2 + 11) requests for reconsiderations annually.

The Office reviewed motions, oppositions, and replies in a number of contested trial proceedings before the trial section of the Board. The review included determining whether the motion, opposition, and reply were directed to patentability grounds and non-



priority non-patentability grounds. This series of final rules adopts changes to permit parties to agree to certain changes from the default process between themselves without filing a motion with the Board. Based on the changes in these final rules, the estimate of the number of motions has been revised downwardly so that it is now anticipated that post-grant reviews and covered business method patent reviews will have an average of 8 motions, oppositions, and replies per trial after institution. Settlement is estimated to occur in 20% of instituted trials at various points of the trial. In the trials that are settled, it is estimated that only 50% of the noted motions, oppositions, and replies would be filed. The Office envisions that most motions will be decided in a conference call or shortly thereafter.

After a trial has been instituted but prior to a final written decision, parties to a covered business method patent review may request an oral hearing. It is anticipated that 45 requests for oral hearings will be filed annually based on the number of requests for oral hearings in inter partes reexamination, the stated desirability for oral hearings during the legislative process, and the public input received prior to this final rule. Based on the percentage of small entity-owned patents that were the subject of inter partes reexamination (32.09%), it is estimated that annually 14 small entity patent owners or petitioners will file a request for oral hearing in the covered business method patent reviews instituted in fiscal years 2013-2015.

Parties to a covered business method patent review may file requests to treat a settlement as business confidential and requests for adverse judgment. A written request to make a

settlement agreement available may also be filed. Given the short time period set for conducting trials, it is anticipated that the alternative dispute resolution options (such as arbitration for derivation proceedings) will be infrequently used. The Office estimates that two requests to treat a settlement as business confidential and ten requests for adverse judgment, default adverse judgment, or settlement notices will be filed annually. The Office also estimates that two requests to make a settlement available will be filed annually. Based on the percentage of small entity-owned patents that were the subject of inter partes reexamination (32.09%), it is estimated that one small entity will annually file a request to treat a settlement as business confidential and three small entities will annually file a request for adverse judgment, default adverse judgment notices, or settlement notices in the reviews instituted in fiscal years 2013-2015.

Parties to a covered business method patent review may seek judicial review of the final decision of the Board. Historically, 33% of decisions by examiners in inter partes reexamination proceedings have been appealed to the Board. Given the increased coordination with district court litigation, the Office has adjusted its estimate of the appeal rate to be 120% of the historic rate (40% of decisions); seven additional notices of appeal will be filed annually based on the decisions issued in the new covered business method patent review proceedings during fiscal years 2013-2015. Furthermore, based on the percentage of small entity-owned patents that were the subject of inter partes reexamination (32.09%), it is estimated that two small entities would seek judicial review of final decisions of the Board annually in the covered business method patent reviews instituted in fiscal years 2013-2015.

## **5. Description of the Reporting, Recordkeeping, and Other Compliance**

### **Requirements of the Final Rule, Including an Estimate of the Classes of Small Entities Which Will Be Subject to the Requirement and the Type of Professional**

**Skills Necessary for Preparation of the Report or Record:** The rules will apply to any small entity that petitions for a covered business method patent review or owns a patent subject to such review. The reviews would be limited to business method patents that are not patents for technological inventions. Under the final rules, a person who is not the owner of a patent may file a petition to institute a review of that patent if the person is currently a party to litigation based on the patent or charge with infringement, with a few exceptions. Given this, it is anticipated that a petition for review is likely to be filed by an entity practicing in the business method field for covered business methods.

Preparation of the petition would require analyzing the patent claims, locating evidence, supporting arguments of unpatentability, and preparing the petition seeking review of the patent. This final rule provides the procedural requirements setting forth which patents are eligible for review. Additional requirements are provided in contemporaneous trial specific rulemaking. The procedures for petitions to institute a covered business method patent review include those set forth in §§ 42.5, 42.6, 42.8, 42.11, 42.13, 42.20, 42.21, 42.22, 42.24(a)(3), 42.63, 42.65, 42.203, 42.205, and 42.302 through 42.304.

The skills necessary to prepare a petition for review and to participate in a trial before the Patent Trial and Appeal Board would be similar to those needed to prepare a request for

inter partes reexamination and to represent a party in an inter partes reexamination before the Board. The level of skill typically is possessed by a registered patent practitioner having devoted professional time to the particular practice area, typically under the supervision of a practitioner skilled in the particular practice area. Where authorized by the Board, a non-registered practitioner may be admitted pro hac vice, on a case-by-case basis based on the facts and circumstances of the trial and party, as well as the skill of the practitioner.

The cost of preparing a petition for covered business method patent review is estimated to be 33.333% higher than the cost of preparing an inter partes review petition because the petition for covered business method patent review may seek to institute a proceeding on additional grounds such as subject matter eligibility. The American Intellectual Property Law Association's AIPLA Report of the Economic Survey 2011 reported that the average cost of preparing a request for inter partes reexamination was \$46,000. The Office believes, based on its experience, that \$46,000 is an appropriate estimate. Based on the Office's consideration of the work required to prepare and file such a request, the Office estimates that the cost of preparing a petition for covered business method patent review would be \$61,333.

The filing of a petition for review would also require payment by the petitioner of the appropriate petition fee to recover the aggregate cost for providing the review. The appropriate petition fee would be determined by the number of claims for which review is sought and the type of review. The fees for filing a petition for covered business method

patent review would be: \$35,800 to request review of 20 or fewer claims and \$800 for each claim in excess of 20 for which review is sought.

In setting fees, the estimated information technology (IT) cost to establish the process and maintain the filing and storage system through FY 2017 is to be recovered by charging each petition an IT fee that has a base component of \$1,705 for requests to review 20 or fewer claims. The IT component fee would increase \$75 per claim in excess of 20. The remainder of the fee is to recover the cost for judges to determine whether to institute a review and conduct the review, together with a proportionate share of indirect costs, e.g., rent, utilities, additional support, and administrative costs. Based on the direct and indirect costs, the fully burdened cost per hour for judges to decide a petition and conduct a review is estimated to be \$258.32.

For a petition for covered business method patent review with 20 or fewer challenged claims, it is anticipated that about 130 hours of time for review by the judges will be required. An additional amount of time estimated to be slightly less than three hours of judge time would be required for each claim in excess of 20.

The rules permit the patent owner to file a preliminary response to the petition setting forth the reasons why no review should be initiated. The procedures for a patent owner to file a preliminary response as an opposition are set forth in §§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.23, 42.24(b), 42.51, 42.52, 42.53, 42.54, 42.63, 42.64, 42.65, 42.107, 42.120, 42.207, and 42.220. The patent owner is not required to file a preliminary response. The

Office estimates that the preparation and filing of a patent owner preliminary response would require 91.6 hours of professional time and cost \$34,000. The AIPLA Report of the Economic Survey 2011 reported that the average cost for inter partes reexamination including of the request was \$46,000, the first patent owner response and third party comments was \$75,000 (see page I-175) and the mean hourly billing rate for professional time for attorneys in private firms was \$371 (see page 8). Thus, the cost of the first patent owner reply and the third-party statement is \$29,000, the balance of \$75,000 minus \$46,000. The Office finds these costs to be reasonable estimates. The patent owner reply and third-party statement, however, occur after the examiner has made an initial threshold determination and made only the appropriate rejections. Accordingly, it is anticipated that filing a patent owner preliminary response to a petition for review would cost more than the initial reply in a reexamination, or an estimated \$34,000.

The Office will determine whether to institute a trial within three months after the earlier of: (1) the submission of a patent owner preliminary response, (2) the waiver of filing a patent owner preliminary response, or (3) the expiration of the time period for filing a patent owner preliminary response. If the Office decides not to institute a trial, the petitioner may file a request for reconsideration of the Office's decision. It is anticipated that a request for reconsideration will require 80 hours of professional time to prepare and file, at a cost of \$371 per hour, for a total estimated cost of \$29,680. This estimate is based on the complexity of the issues and desire to avoid time bars imposed by 35 U.S.C. 325(b).

Following institution of a trial, the parties may be authorized to file various motions, e.g., motions to amend and motions for additional discovery. Where a motion is authorized, an opposition may be authorized, and where an opposition is authorized, a reply may be authorized. The procedures for filing a motion include those set forth in §§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.22, 42.24(a)(5), 42.51, 42.52, 42.53, 42.54, 42.63, 42.64, 42.65, 42.221, and 42.223. The procedures for filing an opposition include those set forth in §§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.23, 42.24(b), 42.51, 42.52, 42.53, 42.54, 42.63, 42.64, 42.65, 42.207, and 42.220. The procedures for filing a reply include those set forth in §§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.23, 42.24(c), 42.51, 42.52, 42.53, 42.54, 42.63, and 42.65. As discussed previously, the Office estimates that the average covered business method patent review will have a total of 8 motions, oppositions, and replies after institution. The Office envisions that most motions will be decided in a conference call or shortly thereafter.

After a trial has been instituted but prior to a final written decision, parties to a covered business method patent review may request an oral hearing. The procedure for filing requests for oral argument is set forth in § 42.70. The AIPLA Report of the Economic Survey 2011 reported that the third quartile cost of an ex parte appeal with an oral argument is \$12,000, while the third quartile cost of an ex parte appeal without an oral argument is \$6,000. In view of the reported costs, which the Office finds reasonable, and the increased complexity of an oral hearing with multiple parties, it is estimated that the cost per party for oral hearings would be \$6,800, or 18.3 hours of professional time

(\$6,800 divided by \$371), or \$800 more than the reported third quartile cost for an ex parte oral hearing.

Parties to a covered business method patent review may file requests to treat a settlement as business confidential, or file requests for adverse judgment. A written request to make a settlement agreement available may also be filed. The procedures to file requests that a settlement be treated as business confidential are set forth in § 42.74(c). The procedures to file requests for adverse judgment are set forth in § 42.73(b). The procedures to file requests to make a settlement agreement available are set forth in § 42.74(c)(2). It is anticipated that requests to treat a settlement as business confidential will require two hours of professional time for a cost of \$742. It is anticipated that requests for adverse judgment will require one hour of professional time a cost of \$371. It is anticipated that requests to make a settlement agreement available will require one hour of professional time a cost of \$371. The requests to make a settlement agreement available will also require payment of a fee of \$400 specified in § 42.15(d). The fee is the same as that currently set forth in § 41.20(a) for petitions to the Chief Administrative Patent Judge.

Parties to a review proceeding may seek judicial review of the judgment of the Board. The procedures to file notices of judicial review of a Board decision, including notices of appeal and notices of election provided for in 35 U.S.C. 141, 142, 145, and 146, are set forth in §§ 90.1 through 90.3. The submission of a copy of a notice of appeal or a notice of election is anticipated to require six minutes of professional time at a cost of \$37.10.



**6. Description of Any Significant Alternatives to the Final Rules Which Accomplish the Stated Objectives of Applicable Statutes and Which Minimize Any Significant Economic Impact of the Rules on Small Entities:** This Office considered significant alternatives such as: (1) the establishment of differing compliance or reporting requirements or timetables that take into account the resources available to small entities; (2) the clarification, consolidation, or simplification of compliance and reporting requirements under the rule for such small entities; (3) the use of performance rather than design standards; and (4) an exemption from coverage of the rule, or any part thereof, for such small entities. See 5 U.S.C. 603; see also 35 U.S.C. 41(h) (fee reduction for small business concerns not applicable to fees set under 35 U.S.C. 41(d)(2)).

**A. Definition of Technological Invention:** The definition set forth in this final rule is consistent with the AIA and the legislative history, and assists in implementing the transitional program for covered business method patents as required by section 18(d)(2) of the AIA. See, e.g., 157 CONG. REC. S1364 (daily ed. Mar. 8, 2011) (statement of Sen. Schumer) (“The ‘patents for technological inventions’ exception only excludes those patents whose novelty turns on a technological innovation over the prior art and are concerned with a technical problem which is solved with a technical solution and which requires the claims to state the technical features which the inventor desires to protect.”).

With respect to the rules to define patents that are eligible for covered business method patent review of the AIA, the Office considered requiring less than, or exempting small entities from, § 42.304 (which defines the specific content requirement for a petition

seeking a review under the transitional program for covered business method patents).

The Office considered proposing that a technological invention be defined as any claimed invention in any patent having an original classification in any class other than Class 705 of the United States Patent Classification System. Adoption of the alternative definition, as applied to certain patents, would have been either overly narrow or overly broad. For example, there are patents that are originally classified in Class 705 which solve technical problems with technical solutions and which are patentable over the prior art based on a technological innovation. Similarly there are patents that are originally classified in classes other than Class 705 which fail to solve a technical problem with a technical solution and fail to be patentable over the prior art based on a technological innovation. For those reasons, the other considered definition was not adopted in view of the legislative history.

A covered business method patent review is a unique process subject, by statute, to strict periods for completion. Thus, the establishment of longer timetables would not be feasible and likely would result in increased costs.

## **B. Other Aspects of Proceedings**

**Size of petitions and motions:** The Office considered whether to apply a page limit in covered business method proceedings in which a patent's inclusion in or exclusion from the definition is determined, and what a more appropriate page limit would be. The Office does not currently have a page limit on inter partes reexamination requests. The inter partes reexamination requests from October 1, 2010, to June 30, 2011, averaged 246

pages. Based on the experience of processing inter partes reexamination requests, the Office finds that the very large size of the requests has created a burden on the Office that hinders the efficiency and timeliness of processing the requests, and creates a burden on patent owners. The quarterly reported average processing time from the filing of a request to the publication of a reexamination certificate ranged from 28.9 months to 41.7 months in fiscal year 2009, from 29.5 months to 37.6 months in fiscal year 2010, and from 31.9 to 38.0 months in fiscal year 2011. See Reexaminations – FY 2011, available at [http://www.uspto.gov/patents/Reexamination\\_operational\\_statistic\\_through\\_FY2011Q4.pdf](http://www.uspto.gov/patents/Reexamination_operational_statistic_through_FY2011Q4.pdf).

By contrast, the Office has a page limit on the motions filed in contested cases, except where parties are specifically authorized to exceed the limitation. The typical contested case proceeding is subject to a standing order that sets a 50-page limit for motions and oppositions on priority, a 15-page limit for miscellaneous motions (§ 41.121(a)(3)) and oppositions (§ 41.122), and a 25-page limit for other motions (§ 41.121(a)(2)) and oppositions to other motions. In typical proceedings, replies are subject to a 15-page limit if directed to priority, five-page limit for miscellaneous issues, and ten-page limit for other motions. The average contested case was terminated in 10.1 months in fiscal year 2009, in 12 months in fiscal year 2010, and in nine months in fiscal year 2011. The percentage of contested cases terminated within two years was 93.7% in fiscal year 2009, 88.0% in fiscal year 2010, and 94.0% in fiscal year 2011. See BPAI Statistics –

Performance Measures, available at

<http://www.uspto.gov/ip/boards/bpai/stats/perform/index.jsp>.

Comparing the average time period for terminating a contested case, 10.0 to 12.0 months, with the average time period, during fiscal years 2009 through 2011, for completing an inter partes reexamination, 28.9 to 41.7 months, indicates that the average contested case takes from 24% (10.0/41.7) to 42% (12.0/28.9) of the time of the average inter partes reexamination. While several factors contribute to the reduction in time, limiting the size of the requests and motions is considered a significant factor. Section 42.24 thus provides page limits for petitions, motions, oppositions, and replies. 35 U.S.C. 326(b) provides considerations that are to be taken into account when prescribing regulations including the integrity of the patent system, the efficient administration of the Office, and the ability to complete the trials timely. The page limits set forth in this final rule is consistent with these considerations.

Federal courts routinely use page limits in managing motions practice as “[e]ffective writing is concise writing.” Spaziano v. Singletary, 36 F.3d 1028, 1031 n.2 (11th Cir. 1994). Many district courts restrict the number of pages that may be filed in a motion including, for example, the District of Delaware, the District of New Jersey, the Eastern District of Texas, the Northern, Central, and Southern Districts of California, and the Eastern District of Virginia.

Federal courts have found that page limits ease the burden on both the parties and the courts, and patent cases are no exception. Eolas Techs., Inc. v. Adobe Sys., Inc., No. 6:09-CV-446, at 1 (E.D. Tex. Sept. 2, 2010) (“The Local Rules’ page limits ease the burden of motion practice on both the Court and the parties.”); Blackboard, Inc. v. Desire2Learn, Inc., 521 F. Supp. 2d 575, 576 (E.D. Tex. 2007) (The parties “seem to share the misconception, popular in some circles, that motion practice exists to require federal judges to shovel through steaming mounds of pleonastic arguments in Herculean effort to uncover a hidden gem of logic that will ineluctably compel a favorable ruling. Nothing could be further from the truth.”); Broadwater v. Heidtman Steel Prods., Inc., 182 F. Supp. 2d 705, 710 (S.D. Ill. 2002) (“Counsel are strongly advised, in the future, to not ask this Court for leave to file any memoranda (supporting or opposing dispositive motions) longer than 15 pages. The Court has handled complicated patent cases and employment discrimination cases in which the parties were able to limit their briefs supporting and opposing summary judgment to 10 or 15 pages.” (Emphasis omitted)).

The Board’s contested cases experience with page limits in motions practice is consistent with that of the Federal courts. The Board’s use of page limits has shown it to be beneficial without being unduly restrictive for the parties. Page limits have encouraged the parties to focus on dispositive issues, and reducing costs for the parties and for the Board.

The Board’s contested cases experience with page limits is informed by its use of different approaches over the years. In the early 1990s, page limits were not routinely

used for motions, and the practice suffered from lengthy and unacceptable delays. To reduce the burden on the parties and on the Board and thereby reduce the time to decision, the Board instituted page limits in the late 1990s for every motion. Page limit practice was found to be effective in reducing the burdens on the parties and improving decision times at the Board. In 2006, the Board revised the page limit practice and allowed unlimited findings of fact and generally limited the number of pages containing argument. Due to abuses of the system, the Board recently reverted back to page limits for the entire motion (both argument and findings of fact).

The Board's current page limits are consistent with the 25-page limits in the Northern, Central, and Southern Districts of California and the Middle District of Florida and exceed the limits in the District of Delaware (20), the Northern District of Illinois (15), the District of Massachusetts (20), the Eastern District of Michigan (20), the Southern District of Florida (20), and the Southern District of Illinois (20).

In a typical proceeding before the Board, a party may be authorized to file a single motion for unpatentability based on prior art, a single motion for unpatentability based upon failure to comply with 35 U.S.C. 112, lack of written description, and/or enablement, and potentially another motion for lack of compliance with 35 U.S.C. 101, although a 35 U.S.C. 101 motion may be required to be combined with the 35 U.S.C. 112 motion. Each of these motions is currently limited to 25 pages in length, unless good cause is shown that the page limits are unduly restrictive for a particular motion.

A petition requesting the institution of a trial proceeding would be similar to motions currently filed with the Board. Specifically, petitions to institute a trial seek a final written decision that the challenged claims are unpatentable, where derivation is a form of unpatentability. Accordingly, a petition to institute a trial based on prior art would, under current practice, be limited to 25 pages, and by consequence, a petition raising unpatentability based on prior art and unpatentability under 35 U.S.C. 101 and/or 112 would be limited to 50 pages.

Under the final rules, a covered business method patent review petition would be based upon any grounds identified in 35 U.S.C. 321(b), e.g., failure to comply with 35 U.S.C. 101, 102 (based on certain references), 103, and 112 (except best mode).

Under current practice, a party would be limited to filing two or three motions, each limited to 25 pages, for a maximum of 75 pages. Where there is more than one motion for unpatentability based upon different statutory grounds, the Board's experience is that the motions contain similar discussions of technology and claim constructions. Such overlap is unnecessary where a single petition for unpatentability is filed. Thus, the 80-page limit is considered sufficient in all but exceptional cases.

The rule provides that petitions to institute a trial must comply with the stated page limits but may be accompanied by a motion that seeks to waive the page limits. The petitioner must show in the motion how a waiver of the page limits is in the interests of justice. A copy of the desired non-page limited petition must accompany the motion. Generally, the Board would decide the motion prior to deciding whether to institute the trial.

Current Board practice provides a limit of 25 pages for other motions and 15 pages for miscellaneous motions. The Board's experience is that such page limits are sufficient for the parties filing them and do not unduly burden the opposing party or the Board.

Petitions to institute a trial would generally replace the current practice of filing motions for unpatentability, as most motions for relief are expected to be similar to the current contested cases miscellaneous motion practice. Accordingly, the 15-page limit is considered sufficient for most motions but may be adjusted where the limit is determined to be unduly restrictive for the relief requested.

Section 42.24(b) provides page limits for oppositions filed in response to motions.

Current contested cases practice provides an equal number of pages for an opposition as its corresponding motion. This is generally consistent with motions practice in Federal courts. The rule would continue the current practice.

Section 42.24(c) provides page limits for replies. Current contested cases practice provides a 15-page limit for priority motion replies, a five-page limit for miscellaneous (procedural) motion replies, and a ten page limit for all other motions. The rule is consistent with current contested case practice for procedural motions. The rule provides a 15-page limit for reply to petitions requesting a trial, which the Office believes is sufficient based on current practice. Current contested case practice has shown that such page limits do not unduly restrict the parties and, in fact, have provided sufficient flexibility to parties not only to reply to the motion but also help to focus on the issues.



Thus, it is anticipated that default page limits would minimize the economic impact on small entities by focusing on the issues in the trials.

The AIA requires that the Director, in prescribing rules for covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete the instituted proceedings timely. See 35 U.S.C. 326(b). In view of the actual results of the duration of proceedings in inter partes reexamination (without page limits) and contested cases (with page limits), adopting procedures with reasonable page limits is consistent with the objectives set forth in the AIA. Based on our experience on the time needed to complete a non-page limited proceeding, the option of non-page limited proceedings was not adopted.

**Fee Setting:** 35 U.S.C. 321(a) requires the Director to establish fees to be paid by the person requesting the review in such amounts as the Director determines to be reasonable, considering the aggregate costs of the review. In contrast to 35 U.S.C. 311(b) and 312(c), effective September 15, 2012, the AIA requires the Director to establish more than one fee for reviews based on the total cost of performing the reviews, and does not provide explicitly for refund of any part of the fee when the Director determines that the review should not be initiated.

35 U.S.C. 322(a)(1) further requires that the fee established by the Director under 35 U.S.C. 321 accompany the petition on filing. Accordingly, under the fee setting

authority in 35 U.S.C. 321(a), it is reasonable that the Director set a number of fees for filing a petition based on the anticipated aggregate cost of conducting the review depending on the complexity of the review, and require payment of the fee upon filing of the petition.

Based on experience with contested cases and inter partes reexamination proceedings, the following characteristics of requests were considered as potential factors for fee setting as each would likely impact the cost of providing the new services. The Office also considered the relative difficulty in administering each option in selecting the characteristics for which different fees should be paid for requesting review.

I. Adopted Option. Number of claims for which review is requested. The number of claims often impacts the complexity of the request and increases the demands placed on the deciding officials. Cf. In re Katz Interactive Call Processing Patent Litig., 639 F.3d 1303, 1309 (Fed. Cir. 2011) (limiting number of asserted claims is appropriate to manage a patent case efficiently). Moreover, the number of claims for which review is requested can be easily determined and administered, which avoids delays in the Office and the impact on the economy or patent system that would occur if an otherwise meritorious petition is refused due to improper fee payment. Any subsequent petition could be time barred in view 35 U.S.C. 325.

II. Alternative Option I. Number of grounds for which review is requested. The Office has experience with large numbers of cumulative grounds being presented in

inter partes reexaminations which often add little value to the proceedings. Allowing for a large number of grounds to be presented on payment of an additional fee(s) is not favored. Determination of the number of grounds in a request may be contentious and difficult and may result in a large amount of high-level petition work. As such, this option would have a negative impact on small entities. Moreover, contested cases instituted in the 1980s and early 1990s suffered from this problem as there was no page limit for motions and the parties had little incentive to focus the issues for decision. The resulting records were often a collection of disparate issues and evidence. This led to lengthy and unwarranted delays in deciding contested cases as well as increased costs for parties and the Office. Accordingly, this alternative is inconsistent with objectives of the AIA that the Director, in prescribing rules for the covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete the instituted proceedings timely.

III. Alternative Option II. Pages of argument. The Office has experience with large requests in inter partes reexamination in which the merits of the proceedings could have been resolved in a shorter request. Allowing for unnecessarily large requests on payment of an additional fee(s) is not favored. Moreover, determination of what should be counted as “argument” as compared with “evidence” has often proven to be contentious and difficult as administered in the current inter partes reexamination appeal process.

In addition, the trial section of the Board recently experimented with motions having a fixed page limit for the argument section and an unlimited number of pages for the statement of facts. Unlimited pages for the statement of facts led to a dramatic increase in the number of alleged facts and pages associated with those facts. For example, one party used approximately ten pages for a single “fact” that merely cut and pasted a portion of a declarant’s cross-examination. Accordingly, this alternative is inconsistent with objectives of the AIA that the Director, in prescribing rules for the covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete the instituted proceedings timely.

IV. Alternative Option III. The Office considered an alternative fee setting regime in which fees would be charged at various steps in the review process: a first fee on filing of the petition, a second fee if instituted, a third fee on filing a motion in opposition to amended claims, etc. The alternative fee setting regime would hamper the ability of the Office to complete reviews timely, would result in dismissal of pending proceedings with patentability in doubt due to non-payment of required fees by third parties, and would be inconsistent with 35 U.S.C. 322 that requires the fee established by the Director be paid at the time of filing the petition. Accordingly, this alternative is inconsistent with objectives of the AIA that the Director, in prescribing rules for covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete the instituted proceedings timely.

V. Alternative Option IV. The Office considered setting reduced fees for small and micro entities and to provide refunds if a review is not instituted. However, 35 U.S.C. 41(d)(2) provides that the Office shall set the fee to recover the cost of providing the services. Fees set under this authority are not reduced for small entities. See 35 U.S.C. 42(h)(1), as amended. Moreover, the Office does not have authority to refund fees that were not paid by mistake or in excess of that owed. See 35 U.S.C. 42(d).

**Discovery:** The Office considered a procedure for discovery similar to the one available during district court litigation. Discovery of that scope has been criticized sharply, particularly when attorneys use discovery tools as tactical weapons, which hinder the “just, speedy, and inexpensive determination of every action and proceeding.”

See introduction to An E-Discovery Model Order, available at

[http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery\\_Model\\_Order.p](http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery_Model_Order.pdf)

[df](http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery_Model_Order.pdf). Accordingly, this would have been inconsistent with objectives of the AIA that the Director, in prescribing rules for the covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete the instituted proceedings timely.

Additional discovery increases trial costs and increases the expenditures of time by the parties and the Board. To promote effective discovery, the rule requires a showing of good cause to authorize additional requested discovery. To show good cause, a party

must make a particular and specific demonstration of fact. The moving party must also show that it was fully diligent in seeking discovery, and that there is no undue prejudice to the non-moving party. Parties may, however, agree to additional discovery amongst themselves.

The Board will set forth a default scheduling order to provide limited discovery as a matter of right and provide parties with the ability to seek additional discovery on a case-by-case basis. In weighing the need for additional discovery, should a request be made, the Board would consider the economic impact on the opposing party. This would tend to limit additional discovery where a party is a small entity.

**Pro Hac Vice:** The Office considered whether to allow counsel to appear pro hac vice. In certain cases, highly skilled, but non-registered, attorneys have appeared satisfactorily before the Board in contested cases. The Board may recognize counsel pro hac vice during a proceeding upon a showing of good cause. The Board may impose conditions in recognizing counsel pro hac vice, including a requirement that counsel acknowledge that counsel is bound by the Office's Code of Professional Responsibility. Proceedings before the Office can be technically complex. The grant of a motion to appear pro hac vice is a discretionary action taking into account the specifics of the proceedings. Similarly, the revocation of pro hac vice is a discretionary action taking into account various factors, including incompetence, unwillingness to abide by the Office's Code of Professional Responsibility, prior findings of misconduct before the Office in other proceedings, and incivility.

The Board's past practice has required the filing of a motion by a registered patent practitioner seeking pro hac vice representation based upon a showing of: (1) how qualified the unregistered practitioner is to represent the party in the proceeding when measured against a registered practitioner, and (2) whether the party has a genuine need to have the particular unregistered practitioner represent it during the proceeding. This practice has proven effective in the limited number of contested cases where such requests have been granted. The final rule allows for this practice in the new proceedings authorized by the AIA.

The rules provide a limited delegation to the Board under 35 U.S.C. 2(b)(2) and 32 to regulate the conduct of counsel in Board proceedings. The rule delegates to the Board the authority to conduct counsel disqualification proceedings while the Board has jurisdiction over a proceeding. The rule also delegates to the Chief Administrative Patent Judge the authority to make final a decision to disqualify counsel in a proceeding before the Board for the purposes of judicial review. This delegation would not derogate from the Director the prerogative to make such decisions, nor would it prevent the Chief Administrative Patent Judge from further delegating authority to an administrative patent judge.

The Office considered broadly permitting practitioners not registered to practice by the Office to represent parties in trial as well as categorically prohibiting such practice. A prohibition on the practice would be inconsistent with the Board's experience, and more

importantly, might result in increased costs particularly where a small entity has selected its district court litigation team and subsequently a patent review is filed after litigation efforts have commenced. Alternatively, broadly making the practice available would create burdens on the Office in administering the trials and in completing the trial within the established time frame, particularly if the selected practitioner does not have the requisite skill. In weighing the desirability of admitting a practitioner pro hac vice, the economic impact on the party in interest would be considered which would tend to increase the likelihood that a small entity could be represented by a non-registered practitioner. Accordingly, the alternatives to eliminate pro hac vice practice or to permit it more broadly would have been inconsistent with objectives of the AIA that the Director, in prescribing rules for the covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete the instituted proceedings timely.

**Threshold for Instituting a Review:** The Office considered whether the threshold for instituting a review could be set as low as or lower than the threshold for ex parte reexamination. This alternative could not be adopted in view of the statutory requirements in 35 U.S.C. 324.

**Default Electronic Filing:** The Office considered a paper filing system and a mandatory electronic filing system (without any exceptions) as alternatives to the requirement that all papers are to be electronically filed, unless otherwise authorized.



Based on the Office's experience, a paper-based filing system increases delay in processing papers, delay in public availability, and the chance that a paper may be misplaced or made available to an improper party if confidential. Accordingly, the alternative of a paper-based filing system would have been inconsistent with objectives of the AIA that the Director, in prescribing rules for the covered business method patent reviews, consider the effect of the rules on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to complete the instituted proceedings timely.

An electronic filing system (without any exceptions) that is rigidly applied would result in unnecessary cost and burdens, particularly where a party lacks the ability to file electronically. By contrast, under the adopted option, it is expected that the entity size and sophistication will be considered in determining whether alternative filing methods would be authorized.

**7. Identification, to the Extent Practicable, of All Relevant Federal Rules Which May Duplicate, Overlap, or Conflict With the Final Rules:**

The following rules also provide processes involving patent applications and patents:

37 CFR 1.99 provides for the submission of information after publication of a patent application during examination by third parties.

37 CFR 1.171-1.179 provide for applications to reissue a patent to correct errors, including where a claim in a patent is overly broad.

37 CFR 1.291 provides for the protest against the issuance of a patent during examination.

37 CFR 1.321 provides for the disclaimer of a claim by a patentee.

37 CFR 1.501 and 1.502 provide for ex parte reexamination of patents. Under these rules, a person may submit to the Office prior art consisting of patents or printed publications that are pertinent to the patentability of any claim of a patent, and request reexamination of any claim in the patent on the basis of the cited prior art patents or printed publications. Consistent with 35 U.S.C. 302-307, ex parte reexamination rules provide a different threshold for initiation, require the proceeding to be conducted by an examiner with a right of appeal to the Patent Trial and Appeal Board, and allow for limited participation by third parties.

37 CFR 1.902-1.997 provide for inter partes reexamination of patents. Similar to ex parte reexamination, inter partes reexamination provides a procedure in which a third party may request reexamination of any claim in a patent on the basis of the cited prior art

patents and printed publication. The inter partes reexamination practice will be eliminated, except for requests filed before the effective date, September 16, 2012.

See section 6(c)(3)(C) of the AIA.

Other countries have their own patent laws, and an entity desiring a patent in a particular country must make an application for patent in that country, in accordance with the applicable law. Although the potential for overlap exists internationally, this cannot be avoided except by treaty (such as the Paris Convention for the Protection of Industrial Property, or the Patent Cooperation Treaty (PCT)). Nevertheless, the Office believes that there are no other duplicative or overlapping foreign rules.

**C. Executive Order 12866 (Regulatory Planning and Review):** This rulemaking has been determined to be significant for purposes of Executive Order 12866 (Sept. 30, 1993), as amended by Executive Order 13258 (Feb. 26, 2002) and Executive Order 13422 (Jan. 18, 2007).

Based on the petition and other filing requirements for initiating a review proceeding in which the definitions adopted in this final rule apply, the USPTO estimates the annual aggregate burden of the rules on the public to be \$22,417,241.20 in fiscal years 2013-2015, which represents the sum of the estimated total annual (hour) respondent cost burden (\$20,340,891.20) plus the estimated total annual non-hour respondent cost burden (\$2,076,350) provided in Part O, Section II, of this notice, infra.

The USPTO expects several benefits to flow from the AIA and these rules. It is anticipated that the rules will reduce the time for reviewing patents at the USPTO. Specifically, 35 U.S.C. 326(a) provides that the Director prescribe regulations requiring a final determination by the Board within one year of initiation, which may be extended for up to six months for good cause. In contrast, currently for inter partes reexamination, the average time from the filing to the publication of a certificate ranged from 28.9 to 41.7 months during fiscal years 2009-2011. See Reexaminations – FY 2011, available at [http://www.uspto.gov/patents/Reexamination\\_operational\\_statistic\\_through\\_FY2011Q4.pdf](http://www.uspto.gov/patents/Reexamination_operational_statistic_through_FY2011Q4.pdf).

Likewise, it is anticipated that the rules will minimize duplication of efforts. In particular, the AIA provides more coordination between district court infringement litigation and covered business method patent review to reduce duplication of efforts and costs.

The AIPLA Report of the Economic Survey 2011 reports that where the damages at risk are less than \$1,000,000 the total cost of patent litigation was, on average, \$916,000, where the damages at risk are between \$1,000,000 and \$25,000,000 the total cost was, on average, \$2,769,000, and where the damages at risk exceed \$25,000,000 the total cost was, on average, \$6,018,000. The Office believes, based on its experience, that these estimates are reasonable. There may be a significant reduction in overall burden if, as intended, the AIA and the rules reduce the overlap between review at the USPTO of

issued patents and validity determination during patent infringement actions. Data from the United States district courts reveals that 2,830 patent cases were filed in 2006, 2,896 in 2007, 2,909 in 2008, 2,792 in 2009, and 3,301 in 2010. See U.S. Courts, Judicial Business of the United States Courts, available at [www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2010/appendices/C02ASep10.pdf](http://www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2010/appendices/C02ASep10.pdf) (last visited Nov. 11, 2011) (hosting annual reports for 1997 through 2010). Thus, the Office estimates that no more than 3,300 patent cases (the highest number of yearly filings between 2006 and 2010 rounded to the nearest 100) are likely to be filed annually. The aggregate burden estimate above (\$22,417,241.20) was not offset by a reduction in burden based on improved coordination between district court patent litigation and the new inter partes review proceedings.

The Office received one written comment from the public regarding Executive Order 12866. Each component of that comment directed to Executive Order 12866 is addressed below.

*Comment 22:* One comment suggested that the proposed rules would have been classified more appropriately as significant under section 3(f)(4) of Executive Order 12866 because the proposed rules raise novel legal or policy issues arising out of legal mandates.

*Response:* As stated in the notice of proposed rulemaking and in this final rule, the Office of Management and Budget designated the proposed rules as significant under

Executive Order 12866, but not economically significant. The comment does not present what aspect(s) of the rule is believed to present novel legal or policy issues.

*Comment 23:* One comment suggested that the costs, including any prophylactic application steps resulting from the new proceedings, were not calculated appropriately when the Office offset the new burdens with those removed by elimination of the ability to file new inter partes reexamination under Executive Order 12866 and that when appropriately calculated, the cost would exceed the \$100 million threshold for declaring the proposed rules significant under section 3(f)(1).

*Response:* As stated in the notice of proposed rulemaking and in this final rule, the Office of Management and Budget designated the proposed rules as significant under Executive Order 12866, but not economically significant. The baseline costs that the Office used to determine the increased burden of the proposed rules properly included the burden on the public to comply with inter partes reexamination because those burdens existed before the statutory change, and that process was eliminated and replaced by the process adopted by the AIA as implemented this final rule. See OMB Circular A4, section (e)(3). See also response to Comment 20.

*Comment 24:* One comment argued that the \$80,000,000 burden estimate is so close to \$100,000,000 threshold, that, particularly in view of the difficulties in estimating burden, the Office should assume that it is likely that the proposed rules would have a

\$100,000,000 impact. One comment suggested that the Office should have conducted a Regulatory Impact Analysis.

*Response:* As stated in the notice of proposed rulemaking and in this final rule, the Office of Management and Budget designated the proposed rules as significant under Executive Order 12866, but not economically significant. The comment did not indicate what aspect of the estimate was likely to be wrong. Furthermore, \$80,000,000 is twenty percent below the \$100,000,000 threshold. Moreover, the Office's estimate did not take into account the reduction in burden due to decreased litigation. Thus, the Office's estimate is likely an overstatement of the estimated basis.

**D. Executive Order 13563 (Improving Regulation and Regulatory Review):** The Office has complied with Executive Order 13563.

Specifically, the Office has, to the extent feasible and applicable: (1) made a reasoned determination that the benefits justify the costs of the rule; (2) tailored the rule to impose the least burden on society consistent with obtaining the regulatory objectives; (3) selected a regulatory approach that maximizes net benefits; (4) specified performance objectives; (5) identified and assessed available alternatives; (6) involved the public in an open exchange of information and perspectives among experts in relevant disciplines, affected stakeholders in the private sector, and the public as a

whole, and provided online access to the rule making docket; (7) attempted to promote coordination, simplification, and harmonization across government agencies and identified goals designed to promote innovation; (8) considered approaches that reduce burdens and maintain flexibility and freedom of choice for the public; and (9) ensured the objectivity of scientific and technological information and processes.

**E. Executive Order 13132 (Federalism):** This rulemaking does not contain policies with federalism implications sufficient to warrant preparation of a Federalism Assessment under Executive Order 13132 (Aug. 4, 1999).

**F. Executive Order 13175 (Tribal Consultation):** This rulemaking will not: (1) have substantial direct effects on one or more Indian tribes; (2) impose substantial direct compliance costs on Indian tribal governments; or (3) preempt tribal law. Therefore, a tribal summary impact statement is not required under Executive Order 13175 (Nov. 6, 2000).

**G. Executive Order 13211 (Energy Effects):** This rulemaking is not a significant energy action under Executive Order 13211 because this



rulemaking is not likely to have a significant adverse effect on the supply, distribution, or use of energy. Therefore, a Statement of Energy Effects is not required under Executive Order 13211 (May 18, 2001).

**H. Executive Order 12988 (Civil Justice Reform):** This rulemaking meets applicable standards to minimize litigation, eliminate ambiguity, and reduce burden as set forth in sections 3(a) and 3(b)(2) of Executive Order 12988 (Feb. 5, 1996). This rulemaking carries out a statute designed to lessen litigation. See H.R. Rep. No. 112-98, at 45-48.

**I. Executive Order 13045 (Protection of Children):** This rulemaking does not concern an environmental risk to health or safety that may disproportionately affect children under Executive Order 13045 (Apr. 21, 1997).

**J. Executive Order 12630 (Taking of Private Property):** This rulemaking will not affect a taking of private property or otherwise have taking implications under Executive Order 12630 (Mar. 15, 1988).

**K. Congressional Review Act:** Under the Congressional Review Act provisions of the Small Business Regulatory Enforcement Fairness Act of 1996 (5 U.S.C. 801-808), prior to issuing any final rule, the United States Patent and Trademark Office will submit a report containing the final rule and other required information to the U.S. Senate, the U.S. House of Representatives, and the Comptroller General of the Government Accountability Office. The changes in this notice are not expected to result in an annual effect on the economy of 100 million dollars or more, a major increase in costs or prices, or significant adverse effects on competition, employment, investment, productivity, innovation, or the ability of United States-based enterprises to compete with foreign based enterprises in domestic and export markets. Therefore, this notice is not expected to result in a “major rule” as defined in 5 U.S.C. 804(2).

**L. Unfunded Mandates Reform Act of 1995:** The changes set forth in this final rule do not involve a Federal intergovernmental mandate that will result in the expenditure by State, local, and tribal governments, in the aggregate, of 100 million dollars (as adjusted) or more in any one year, or a Federal private sector mandate that will result in the expenditure by the private sector of 100 million dollars (as adjusted) or more in any one year, and will not significantly or uniquely affect small governments. Therefore, no

actions are necessary under the provisions of the Unfunded Mandates Reform Act of 1995. See 2 U.S.C. 1501 et seq.

**M. National Environmental Policy Act:** This rulemaking will not have any effect on the quality of the environment and is thus categorically excluded from review under the National Environmental Policy Act of 1969. See 42 U.S.C. 4321-4370h.

**N. National Technology Transfer and Advancement Act:** The requirements of section 12(d) of the National Technology Transfer and Advancement Act of 1995 (15 U.S.C. 272 note) are not applicable because this rulemaking does not contain provisions which involve the use of technical standards.

**O. Paperwork Reduction Act:** The Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3549) requires that the USPTO consider the impact of paperwork and other information collection burdens imposed on the public. This rulemaking involves information collection requirements which are subject to review by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3549). The

collection of information involved in this final rule was submitted to OMB under OMB control number 0651-0069 when the notice of proposed rulemaking was published. The Office published the title, description, and respondent description of the information collection, with an estimate of the annual reporting burdens, in the Notice “Rules of Practice for Trials before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions,” 77 FR 6879 (Feb. 9, 2012) (notice of proposed rulemaking) (RIN 0651-AC70) and the Notice “Changes to Implement Transitional Program for Covered Business Method Patents,” 77 FR 7080 (Feb. 10, 2012) (notice of proposed rulemaking) (RIN 0651-AC73).

The Office received one comment and made minor revisions to the requirements in the rule, as well as the burden estimates, as outlined below. Accordingly, the Office has resubmitted the proposed revision to the information collection requirements under 0651-0069. The proposed revision to the information collection requirements under 0651-0069 is available at OMB’s Information Collection Web site ([www.reginfo.gov/public/do/PRAMain](http://www.reginfo.gov/public/do/PRAMain)).

This rulemaking will add the following to a collection of information:

- (1) petitions to institute a covered business method patent review (§§ 42.5, 42.6, 42.8, 42.11, 42.13, 42.20, 42.21, 42.22, 42.24(a)(3), 42.63, 42.65, 42.203, 42.205, and 42.302 through 42.304);
- (2) motions (§§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.22, 42.24(a)(5), 42.51 through 42.54, 42.63, 42.64, 42.65, 42.221, 42.123, and 42.223);
- (3) oppositions (§§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.23, 42.24(b), 42.51, 42.52, 42.53, 42.54, 42.63, 42.64, 42.65, 42.207, and 42.220); and
- (4) replies provided for in 35 U.S.C. 321-329 (§§ 42.6, 42.8, 42.11, 42.13, 42.21, 42.23, 42.24(c), 42.51, 42.52, 42.53, 42.54, 42.63, and 42.65).

The rules also permit filing requests for oral argument (§ 42.70) provided for in 35 U.S.C. 326(a)(10), requests for rehearing (§ 42.71(c)), requests for adverse judgment (§ 42.73(b)), and requests that a settlement be treated as business confidential (§ 42.74(b)) provided for in 35 U.S.C. 327.

**I. Abstract:** The USPTO is required by 35 U.S.C. 131 and 151 to examine applications and, when appropriate, issue applications as patents.

Chapter 32 of title 35 U.S.C. in effect on September 16, 2012, provides for post-grant review proceedings allowing third parties to petition the USPTO to review the patentability of an issued patent under any ground authorized under 35 U.S.C. 282(b)(2). If a trial is initiated by the USPTO based on the petition, as authorized by the USPTO, additional motions may be filed by the petitioner. A patent owner may file a response to

the petition and if a trial is instituted, as authorized by the USPTO, may file additional motions.

Section 18 of the AIA provides for a transitional program for covered business method patents which will employ the standards and procedures of the post-grant review proceeding with a few exceptions.

In estimating the number of hours necessary for preparing a petition to institute a covered business method patent review, the USPTO considered the estimated cost of preparing a request for inter partes reexamination (\$46,000), the mean billing rate (\$371 per hour), and the observation that the cost of inter partes reexamination has risen the fastest of all litigation costs since 2009 in the AIPLA Report of the Economic Survey 2011. Since additional grounds for instituting a review are provided for in a covered business method patent review compared with inter partes reexamination, the Office estimates the cost of preparing a petition to institute a review will be 33.333% more than the estimated cost of preparing a request for inter partes reexamination, or \$61,333.

Considering the percentage of motions on patentability issues provides an appropriate estimate of transitional proceedings for covered business methods because grounds raised in those proceedings would be directed to the same issues. Accordingly, the USPTO reviewed recent contested cases before the trial section of the Board to estimate the average number of motions for any matter including priority, the subset of those motions directed to non-priority issues, the subset of those motions directed to non-priority

patentability issues, and the subset of those motions directed to patentability issues based on a patent or printed publication on the basis of 35 U.S.C. 102 or 103. The review of current contested cases before the trial section of the Board indicated that approximately 15% of motions were directed to prior art grounds, 18% of motions were directed to other patentability grounds, 27% were directed to miscellaneous issues, and 40% were directed to priority issues. It was estimated that the cost per motion to a party in current contested cases before the trial section of the Board declines because of overlap in subject matter, expert overlap, and familiarity with the technical subject matter. Given the overlap of subject matter, a proceeding with fewer motions, such as a transitional proceeding for a covered business method patent will have a somewhat less than proportional decrease in costs since the overlapping costs will be spread over fewer motions as compared with a derivation proceeding.

It is estimated that the cost of a covered business method patent review would be 75% of the cost of current contested cases before the trial section of the Board to the end of the preliminary motion period. A covered business method patent review should have many fewer motions since only one party will have a patent that is the subject of the proceeding (compared with each party having at least a patent or an application in current contested cases before the trial section of the Board). Moreover, fewer issues can be raised since covered business method patent reviews will not have the priority-related issues that must be addressed in current contested cases before the trial section of the Board before the priority phase. Again, a 75% weighting factor should capture the typical costs of a covered business method patent review.

The title, description, and respondent description of the information collection are shown below with an estimate of the annual reporting burdens for the covered business method patent review provisions. Included in this estimate is the time for reviewing instructions, gathering and maintaining the data needed, and completing and reviewing the collection of information. This final rule implements the changes to Office practice necessitated by sections 6(d) and 18 of the AIA.

The public uses this information collection to request review and derivation proceedings and to ensure that the associated fees and documentation are submitted to the USPTO.

## **II. Data**

**Needs and Uses:** The information supplied to the USPTO by a petition to institute a review as well as the motions authorized following the institution is used by the USPTO to determine whether to initiate a review under 35 U.S.C. 324 and to prepare a final decision under 35 U.S.C. 328.

**OMB Number:** 0651-0069

**Title:** Patent Review and Derivation Proceedings

**Form Numbers:** None

**Type of Review:** New Collection

**Likely Respondents/Affected Public:** Individuals or households, businesses or other for profit, not-for-profit institutions, farms, Federal Government, and state, local, or tribal governments.



**Estimated Number of Respondents/Frequency of Collection:** 100 respondents and 486 responses per year.

**Estimated Time Per Response:** The USPTO estimates that it will take the public from 0.1 to 165.3 hours to gather the necessary information, prepare the documents, and submit the information to the USPTO.

**Estimated Total Annual Respondent Burden Hours:** 54,827.2 hours per year.

The table below summarizes the burden hours under the rules proposed in the notices of proposed rulemaking and the burden hours under this final rule.

<b>Item</b>	<b>Proposed estimated time for response</b>	<b>Proposed estimated annual responses</b>	<b>Proposed estimated annual burden hours</b>	<b>Final estimated time for response</b>	<b>Final estimated annual responses</b>	<b>Final estimated annual burden hours</b>
Petition for covered business method patent review	180.4 hours	50	9,020	165.3 hours	50	8,265
Reply to initial covered business method patent review	100 hours	45	4,500	91.6 hours	45	4,122
Request for Reconsideration	80 hours	14	1,120	80 hours	13	1,040
Motions, replies and oppositions after institution in covered business method patent review	130 hours	342	44,460	130 hours	312	40,560
Request for oral hearing	20 hours	45	900	18.3 hours	45	823.5

Request to treat a settlement as business confidential	2 hours	2	4	2 hours	2	4
Request for adverse judgment, default adverse judgment or settlement	1 hour	10	10	1 hour	10	10
Request to make a settlement agreement available	1 hours	2	2	1 hours	2	2
Notice of judicial review of a Board decision (e.g., notice of appeal under 35 U.S.C. 142)	0.1 hour	5	0.5	0.1 hour	7	0.7
<b>Totals</b>	.....	<b>515</b>	<b>60,016.50</b>	.....	<b>486</b>	<b>54,827.2</b>

**Estimated Total Annual (hour) Respondent Cost Burden:** \$20,340,891.20 per year. The USPTO expects that the information in this collection will be prepared by attorneys. Using the professional rate of \$371 per hour for attorneys in private firms, the USPTO estimates that the respondent cost burden for this collection will be approximately \$20,340,891.20 per year (54,827.2 hours per year multiplied by \$371 per hour).

**Estimated Total Annual Non-hour Respondent Cost Burden:** \$2,076,350 per year. There are no capital start-up or maintenance costs associated with this information collection. However, this collection does have annual (non-hour) costs in the form of filing fees. There are filing fees associated with petitions for covered business method

patent review and for requests to treat a settlement as business confidential. The total fees for this collection are calculated in the accompanying table. The USPTO estimates that the total fees associated with this collection will be approximately \$2,076,350 per year.

Therefore, the total estimated cost annual burden in fiscal years 2013-2015 is estimated to be \$23,864,141.20 (the sum of the estimated total annual (hour) respondent cost burden (\$21,787,791.20) plus the estimated total annual non-hour respondent cost burden (\$2,076,350)).

The table below summarizes the (non-hour) respondent cost burden under the rules proposed in the notices of proposed rulemaking and the (non-hour) respondent cost burden under this final rule.

The fees, including the fee structure, referenced in this rulemaking may be revisited and may be proposed to be set or adjusted in a notice of proposed rulemaking under section 10 of the AIA.

<b>Items</b>	<b>Proposed estimated annual responses</b>	<b>Proposed fee amount</b>	<b>Proposed estimated Annual fees</b>	<b>Final estimated annual responses</b>	<b>Final Fee amount</b>	<b>Final estimated Annual fees</b>
Petition for covered business method patent review	50	\$47,100	\$2,355,000	50	\$41,400 (average)	\$2,070,000

Reply to covered business method patent review petition	45	0	0	45	0	0
Request for Reconsideration	14	0	0	13	0	0
Motions, replies and oppositions after initiation in covered business method patent review	342	0	0	303	0	0
Motions in post-grant review or covered business method patent review with excess claims by small entity patent owners	n/a	n/a	n/a	3	370	1,110
Motions in post-grant review or covered business method patent review with excess claims by other than small entity patent owners	n/a	n/a	n/a	6	740	4,440
Request for oral hearing	45	0	0	45	0	0
Request to treat a settlement as business confidential	2	0	0	2	0	0
Request for adverse judgment, default adverse judgment or settlement	10	0	0	10	0	0

Request to make a settlement agreement available	2	\$400	\$800	2	\$400	\$800
Notice of judicial review of a Board decision (e.g., notice of appeal under 35 U.S.C. 142)	5	0	0	7	0	0
<b>Totals</b>	<b>515</b>	<b>....</b>	<b>\$2,355,800</b>	<b>486</b>	<b>....</b>	<b>\$2,076,350</b>

Notwithstanding any other provision of law, no person is required to respond to nor shall a person be subject to a penalty for failure to comply with a collection of information subject to the requirement of the Paperwork Reduction Act unless that collection of information displays a currently valid OMB control number.

The Office received one written submission of comments regarding the Paperwork Reduction Act. Each component of that comment directed the Paperwork Reduction Act is addressed below.

*Comment 25:* A comment suggested that inter partes reexamination is a very poor proxy for these proceedings because there have been very few completed proceedings relative to all filing of inter partes reexaminations from 2001 to 2011 and the comment claims

that the completed proceeding were only the least complex of proceedings which the comment alleges results in a sampling bias.

*Response:* While only 305 inter partes reexamination proceedings have resulted in a certificate, the comment is not correct that only the least complex of proceedings have been completed. The number of filings of inter partes reexamination has increased considerably in the last three full years. See Rules of Practice for Trials before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions, 77 FR at 6893. For example, in the last three years 824 or 64% of the 1,278 requests filed from 2001 to 2011 were filed. Considering that the average time from filing to certificate for the 305 certificates was 36.2 months and the median pendency was 32.9 months, it would have been more appropriate for the comment to consider the 305 certificates that have issued compared with the filings from 2001 to 2008. During that time period there were 467 requests filed, 14 requests were subsequently denied a filing date, 53 requests were denied on the merits, 246 had concluded with a certificate by September 30, 2011, and 154 were still pending on September 30, 2011. Of the 154 that were still pending, only one was before the examiner after a non-final rejection, only three had an action closing prosecution as the last action, and only three had a right of appeal notice as the last action. Most of the 154 proceedings were subject to appeal proceedings or were in the publication process. Accordingly, inter partes reexamination is an appropriate proxy.

*Comment 26:* One comment suggested that for matters not concurrently in litigation, the Office's two hour estimate for the public burden of settlement under the Paperwork Reduction Act was unreasonably low by a factor of 30-100 and must include the costs to arrive at the settlement in addition to the cost of submitting the agreement to the Office. The comment asserts that this burden is fully cognizable under the Paperwork Reduction Act.

*Response:* By statute, any petitioner seeking review of a covered business method must also be in litigation regarding the patent or have been charged with infringement. The comment only argued that for parties not in litigation, the cost of settlement was too low. Therefore, this comment is not pertinent to this rulemaking and is not adopted.

*Comment 27:* A comment requested that the Office set forth the basis for the number of petitions for review.

*Response:* As discussed above in item B, the Office considered the actual number of inter partes reexamination requests filed during FY 2001-2011 and the anticipated number of requests in FY 2012, the number of such requests of patents classified in Class 705, the number of interferences, and the differences between reexamination and the new review. The Office estimated the number of reviews based on the historical data on the number of filings in the most analogous proceedings. See Transitional Program for Covered Business Method Patents—Definition of Technological Invention, 77 FR at 7097.

*Comment 28:* One comment suggested that a projection for at least three years of growth in future filings is necessary because the PRA clearance is for three years. The comment also seeks disclosure of USPTO's estimation models.

*Response:* The suggestion has been adopted. The Office estimates no growth for petitions seeking review under the transitional program for covered business method patents during the three year period. Calculations for these numbers are providing in the supporting statement for this collection. In 2013, the number of eligible patents will include patents for which currently in litigation. In subsequent years, the number of eligible patents is expected to be reduced, because some proceedings will have been settled, while others will have been stayed pending a review. At the same time, as experience in the procedure becomes more wide spread, the public would more likely seek a review. Because these two factors offset each other, the Office is anticipated zero growth for petitions for the covered business method patent review.

*Comment 29:* A comment noted that the distribution of claims for the review was not disclosed during the comment period. The comment asserts that failure to disclose underlying data in the Notice of Proposed Rulemaking violates the Paperwork Reduction Act (and other requirements).

*Response:* The distribution of claims for which review will be requested was estimated based on the number of claims for which inter partes reexamination was requested in the



first 60 requests filed during the second quarter of FY 2011 as that data was the most timely when the proposed rule notices were drafted. That data was publically available when the notice of proposed rulemaking was published and remains available today. [See http://portal.uspto.gov/external/portal/pair](http://portal.uspto.gov/external/portal/pair) . A summary of that publicly available data is provided as follows: 40 of the 60 proceedings requested review of 20 or fewer claims; eight of the 60 requested review of between 21 and 30 claims; three of the 60 requested review of between 31 and 40 claims; six of the 60 requested review of between 41 and 50 claims; one of the 60 requested review of between 51 and 60 claims; one of the 60 requested review of between 61 and 70 claims; and one of the 60 requested review of between 91 and 100 claims. A second group of 20 proceedings filed after September 15, 2011, were reviewed to determine if the change to the statutory threshold resulted in a clear change in the number of claims for which review was requested. A summary of that data is provided as follows: 13 of 20 requested review of 20 or fewer claims; three of 20 requested review of between 21 and 30 claims; three of 20 requested review of between 31 and 40 claims; and one of 20 requested review of 53 claims.

*Comment 30:* One comment suggested that the estimate of the number of post-grant review proceedings should be doubled based on the analysis of the University of Houston of patent cases from 2005-2009. According to the comment, this analysis shows that for every 15 decisions involving printed prior art grounds, there were 13 decisions involving public use, “on sale,” or 35 U.S.C. § 112.

*Response:* The suggestion is not adopted. While the Office agrees that many decisions involved public use, “on sale,” or 35 U.S.C. § 112, the comment and the analysis by the University of Houston did not consider which decisions did not include a prior art grounds, but did include a public use, “on sale,” or 35 U.S.C. § 112 ground. Only the subset of decisions including the newly available grounds could be used appropriately in estimating an increased rate of post-grant review filings relative to inter partes review. The comment also did not address how the limited filing window relative to the filing of district court litigation for post-grant review would be addressed appropriately if the University of Houston study served as a basis for the estimates.

*Comment 31:* One comment suggested that the hourly rate for practitioners should be raised from \$340 (the medium hourly rate from the AIPLA economical survey referenced in the notice of proposed rulemaking) to \$500. The comment asserts that using the median hourly rate from the AIPLA Economic Survey of \$340 is analytically wrong and that, at a minimum, the higher mean rate of \$371 from that survey should be used.

*Response:* The suggestion is adopted in part. The Office has adopted a mean hourly rate of \$371 from the AIPLA Economic Survey, rather than the median hourly rate of \$340 from that survey. The suggestion of a \$500 hourly rate cannot be adopted because the comment did not provide any data to support the validity of hourly rate suggested and the Office believes, based on its experience, that \$371 is a better estimate of the average hourly rate.

*Comment 32:* One comment suggested that reliance on the AIPLA economic survey was inappropriate as the survey is flawed. The comment asserts that the survey is unreliable for estimating paperwork burden under the Information Quality Act.

*Response:* In providing estimates of burden hours, the USPTO sometimes referenced the AIPLA economic survey report, as a benchmark for the estimates. While the costs reported in the survey were considered, the Office, in estimating the cost of the collection, also considered the work required to prepare and file the submissions.

Under the USPTO's Information Quality Guidelines (ICG), the AIPLA economic survey report is not a "dissemination" of information. The Guidelines state that "dissemination" means an "agency initiated or sponsored distribution of information to the public." USPTO's ICG, Section IV, A, 1. Subsection (a) further defines "agency initiated distribution of information to the public" to mean "information that the agency distributes or releases which reflects, represents, or forms any part of the support of the policies of the agency." *Id.* at Section IV, A, 1, a. The USPTO did not distribute or release the AIPLA economic survey report.

Likewise, the AIPLA economic survey report does not qualify as an "agency sponsored distribution of information" under Subsection (b) of the Guidelines, which "refers to situations where the agency has directed a third party to distribute or release information, or where the agency has the authority to review and approve the information before release." *Id.* at Section IV, A, 1, b. The USPTO did not commission the report, had no

input into the structure of the report and does not rely exclusively upon the results of the report to arrive at estimates. No correction of the documents is required because the Office utilized the AIPLA economic survey report in formulating some burden estimations. No correction is required under the Information Quality Act.

*Comment 33:* One comment suggested that the regulations imposed a substantial paperwork burden without a valid OMB Control Number.

*Response:* The suggestion is not adopted. OMB Control number 0651-0069 has been requested appropriately and is pending.

*Comment 34:* One comment suggested that the USPTO's estimates systematically ignore burdens and costs associated with the attorney's client company.

*Response:* See response to Comment 20.

## **List of Subjects**

### 37 CFR Part 42

Administrative practice and procedure, Inventions and patents, Lawyers.

## **Amendments to the Regulatory Text**

For the reasons stated in the preamble, the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office amends 37 CFR part 42, as added elsewhere in this issue of the Federal Register, as follows:

### **PART 42—TRIAL PRACTICE BEFORE THE PATENT TRIAL AND APPEAL BOARD**

1. The authority citation for 37 CFR part 42 continues to read as follows:

**Authority:** 35 U.S.C. 2(b)(2), 6, 21, 23, 41, 135, 311, 312, 316, 321-326 and AIA, Pub. L. 112-29, §§ 6(c), 6(f), and 18, 125 Stat. 284, 304, 311, and 329 (2011).

2. Add § 42.301 to subpart D to read as follows:

#### **§ 42.301 Definitions.**

In addition to the definitions in § 42.2, the following definitions apply to proceedings under this subpart D:

(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.

(b) Technological invention. In determining whether a patent is for a technological invention solely for purposes of the Transitional Program for Covered Business Methods (section 42.301(a)), the following will be considered on a case-by-case basis: whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and solves a technical problem using a technical solution.

Dated: July 16, 2012.

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David J. Kappos,  
Under Secretary of Commerce for Intellectual Property and  
Director of the United States Patent and Trademark Office.

[FR Doc. 2012-17904 Filed 08/13/2012 at 8:45 am; Publication Date: 08/14/2012]