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### PATENTS

The authors review the new “trial-like” post-issuance patent review procedures established under the America Invents Act.

## The New Post-Issuance Procedures: The PTO's Final Rules on Discovery and Trial Practice



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*“Change is the law of life. And those who look only to the past or present are certain to miss the future.”—John F. Kennedy*

**T**he landscape for patent disputes is changing rapidly. The Patent and Trademark Office recently issued rules that will govern the implementation of four new procedures for challenging issued patents (84 PTCJ 653, 8/17/12). These new procedures, authorized by the 2011 Leahy-Smith America Invents Act, will substantially expand the bases upon which patents can be challenged before the PTO, and will incorporate discovery and trial practice more familiar to litigators from federal court and administrative proceedings like International Trade Commission trials.

Unlike existing reexamination proceedings before the PTO, these proceedings will culminate in “trials” before a newly created Patent Trial and Appeal Board.<sup>1</sup> The PTO's newly-issued rules governing these proceedings provide discovery and evidentiary provisions that

allow parties to develop and present evidence that to date has only been available through federal court litigation. The new trial aspects of these procedures increase the scope of evidence that can be collected in trials before the PTAB and present potentially less expensive and faster options for parties seeking to invalidate issued patents. While these new proceedings have their advantages, they come at a cost—parties will be held to the final results through estoppel provisions that apply in future PTO and court actions.

■ **Inter partes review (IPR)—35 U.S.C. § 314(a)—Available Sept. 16:**

The new IPR, available Sept. 16, replaces inter partes reexamination proceedings. Like inter partes reexamination, IPR challenges are limited to challenges based on patents or other printed prior art. IPR is available to any petitioner—except the patent holder—and can be filed at any time during the life of a patent subject to certain limitations. An IPR can be filed nine months after the patent is granted or after a post-grant review (if initiated) has terminated. However, if the petitioner has been sued for infringement of the patent, the IPR must be filed within one year of the petitioner being sued.<sup>2</sup> In addition, an IPR must be filed before the petitioner seeks a declaratory judgment challenging the validity of the patent in federal court.<sup>3</sup> A petitioner seeking to institute an IPR must demonstrate that there is a *reasonable likelihood* that the petitioner would prevail with respect to at least one of the challenged claims.

IPR proceedings are expected to be fast—concluding within one year of commencement (with an additional six months for cause)—and although still carrying significant costs, are cheaper than litigation in a federal district court. After the PTAB issues a final written decision in an IPR, the parties “and those in privity with them” are estopped from taking or maintaining any action in the PTO that is inconsistent with a judgment as to any ground raised or that reasonably could have been raised with respect to any reviewed claim.<sup>4</sup> This estoppel extends to civil actions as well. After a final written decision, the petitioner is estopped from asserting as a defense in litigation any challenge the petitioner raised or reasonably could have raised in the IPR.

■ **Post-grant review (PGR)—35 U.S.C. § 324(a)—for patent claims filed after March 2013:**

PGR provides a broad “opposition” period for newly issued patents. A request for a PGR proceeding may be filed within nine months of issuance or reissuance of a patent by any person, other than the patent owner. Unlike IPR or existing reexamination proceedings, PGR is not limited to challenges based on printed prior art. Claims can be challenged on virtually any grounds used to challenge the validity of a patent claim, including 35 U.S.C. §§ 101 and 112 (but not including best mode), and Sections 102 and 103. Not only are patents and printed publications fair game, but petitioners can also challenge novelty and nonobviousness based on evidence of public use, on-sale activity, and other public disclosures. PGR can also allege lack of compliance with written description, enablement, or patent eligibility rules. The threshold standard for initiating PGR is also lower than either existing reexamination proceedings or IPR—requiring only that the petitioner demon-

strate that it is *more likely than not* that at least one of the challenged claims is unpatentable.

As with IPR, PGR proceedings are expected to conclude within one year (with an additional six months for cause), and impose broad estoppel provisions that prevent parties “and those in privity with them” from maintaining any action in the PTO or asserting any invalidity defense in litigation inconsistent with a final PTAB decision on any issue raised or that reasonably could have been raised in PGR.<sup>5</sup> In addition, a PGR must be filed before the petitioner seeks a declaratory judgment challenging the validity of the patent in federal court.<sup>6</sup> PGR challenges are available only for claims subject to first-to-file provisions after March 2013, so it will likely be some time before this new procedure becomes available.<sup>7</sup>

■ **Transitional program for covered business method patents (CBM)—AIA Section 18(a)(1)—Available Sept. 16, 2012 through Sept. 15, 2020.**

The transitional program for CBM allows parties to challenge covered business method patents under rules similar to PGR proceedings. This procedure will be limited to patents that claim methods (or corresponding apparatus) for performing data processing or other operations used in the practice, administration, or management of a financial product or service. A petition for CBM review can be filed at any time except during the nine-month PGR period. Under the AIA, CBM regulations take effect on Sept. 16, “and shall apply to any covered business method patent issued before, on, or after that effective date, except that the regulations shall not apply to a patent . . . in which a petition for post-grant review of that patent would [apply].”<sup>8</sup> Transitional CBM challenges are therefore available beginning Sept. 16. After March 2013, the nine-month PGR-period exclusion will limit CBM proceedings that could otherwise proceed under PGR for claims subject to first-to-file provisions.

Significantly, transitional CBM proceedings may only be filed where the *person or person’s “real-party-in-interest or privity” has been sued for or charged with infringement* under the patent at issue. CBM proceedings carry the same estoppel provisions as IPR and PGR. Petitions under the transitional program for CBM can be filed until Sept. 15, 2020—after that, the PTAB will wrap up existing petitions and the transitional program will conclude.

■ **Derivation proceeding—35 U.S.C. § 135(a):**

A derivation proceeding allows a patent applicant to request a finding that a named inventor in an earlier application derived the claimed invention from another inventor. A derivation proceeding must be *supported by substantial evidence, and instituted within one year of first publication* by the earlier applicant of a claim to the same or substantially the same invention. Estoppel attaches in derivation proceedings to the losing party who could have properly moved for relief on an issue, but did not do so. Derivation proceedings eliminate interference practice as to applications and patents having an effective filing date on or after March 16, 2013.

<sup>5</sup> 35 U.S.C. § 325(e)(1)-(2).

<sup>6</sup> 35 U.S.C. § 325(a)(1).

<sup>7</sup> *Changes to Implement IPR Proceedings, PGR Proceedings, and Transitional Program for CBM Patents, Rules and Regulations*, 77 Fed. Reg. 48,711 (Aug. 14, 2012) (84 PTCJ 653, 8/17/12). The PTO notes that “[i]n fiscal year 2013, it is expected that no post-grant review petitions will be received, other than those filed under the transitional program for covered business method patents.”

<sup>8</sup> AIA, H.R. 1249 Section 18(E)(2), at p. 47.

<sup>1</sup> See *Leahy-Smith America Invents Act*, H.R. 1249 Section 6(d) at Section 7(a) (adding Section 6 Patent Trial and Appeal Board).

<sup>2</sup> 35 U.S.C. § 315(a)(1).

<sup>3</sup> 35 U.S.C. § 315(b).

<sup>4</sup> 35 U.S.C. § 315(e)(1)-(2).

## New Discovery Procedures for Post-Issuance Proceedings

The PTO's recently issued rules and related commentary governing these new post-issuance procedures fill more than 160 pages and allow a much greater ability to develop and present disputed evidence than the old inter partes and ex parte reexamination proceedings. The lack of discovery in reexamination proceedings before the PTO is often viewed as a critical disadvantage of reexamination practice as compared to contested patent litigation in federal court. To date, discovery has not been available in patent reexamination proceedings because they were not viewed as "contested cases"<sup>9</sup> by the PTO. In contrast, the newly instituted post-issuance proceedings are considered "contested cases" that—through discovery, cross examination, motion practice, and even live testimony—require the parties to present evidence through a PTAB "trial."

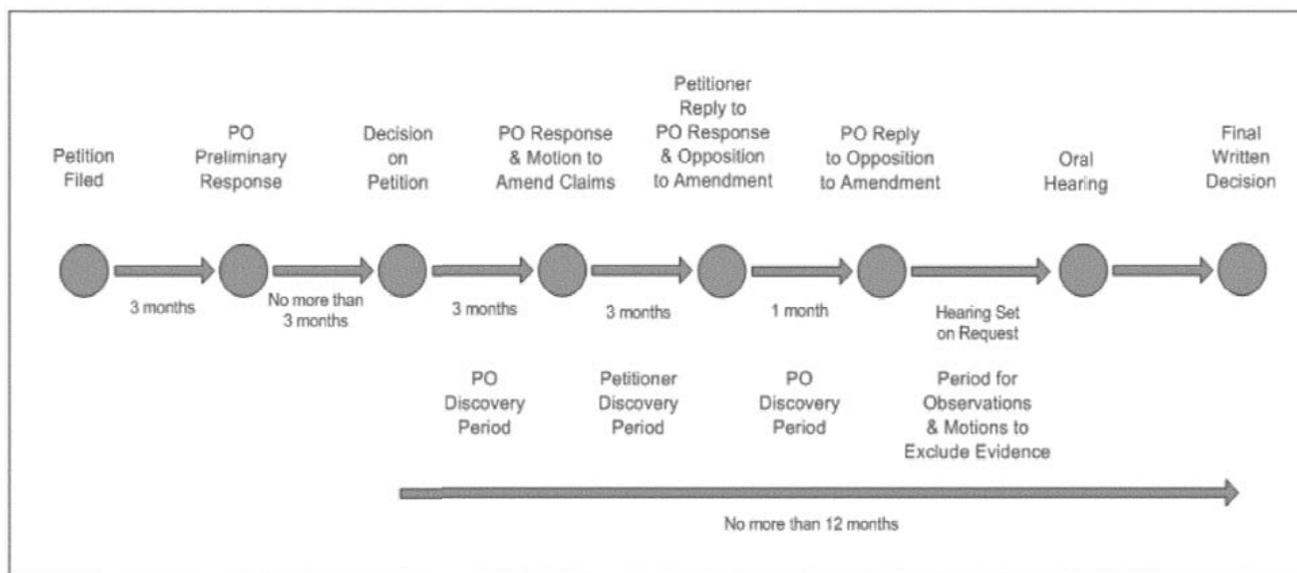
Unlike court proceedings under the Federal Rules of Civil Procedure, however, the burden of justifying discovery in PTAB proceedings lies with the party seeking

lines for patent owner discovery and responses, as well as petitioner discovery and reply to the patent owner's responses.<sup>12</sup> The scheduling order takes into account the timeline for completing proceedings within one year (with an additional six months for cause).

Importantly, the new PTO rules for post-issuance proceedings provide for different types of discovery to be conducted in a sequenced fashion throughout the proceeding, including mandatory initial disclosures, "routine discovery," and "additional discovery," as well as provisions for compelled and live testimony. For discovery other than "routine discovery" where electronically stored information (ESI) is sought by the parties, the PTAB will enter a Model Order Regarding E-Discovery—based on the Federal Circuit's Model Order.<sup>13</sup>

### ■ Mandatory initial disclosures

The parties may agree to mandatory initial disclosures, under which the parties automatically exchange certain initial discovery upon the institution of trial before the PTAB. In order to take advantage of this provision, the parties are required to submit their mutual



discovery.<sup>10</sup> It is therefore critical for parties and counsel engaged in these new PTAB trials to understand the burdens and presumptions applicable to proceedings before the PTAB.

### ■ Discovery timeline

Post-issuance PTAB proceedings begin after a petition has been filed, setting in motion a timetable under which the PTAB determines whether to institute the requested proceeding. The timetable for IPR, PGR, and CBM proceedings, for example, includes an opportunity for the patent owner to file a preliminary response outlining why the petition fails to meet the required standard for instituting a proceeding.<sup>11</sup>

If the PTAB ultimately decides to grant the petition, a scheduling order will be entered that establishes the remaining deadlines consistent with the expected complexity of the proceeding, including sequenced dead-

lines for patent owner discovery and responses, as well as petitioner discovery and reply to the patent owner's responses.<sup>12</sup> The parties can agree to (1) minimal mandatory initial disclosures that include the same type of information generally disclosed in federal district court litigation pursuant to Rule 26(a)(1)(A) of the Federal Rules of Civil Procedure; or (2) can opt for more extensive disclosures that identify witnesses and types and location of evidence in greater detail.<sup>14</sup>

### ■ Routine discovery

The PTO's new discovery provisions are drafted with the intent of placing the parties on a level playing field and streamlining the proceeding.<sup>15</sup> Accordingly, autho-

<sup>12</sup> *Id.*

<sup>13</sup> *Id.* at 48762 (referencing the Federal Circuit's "E-Discovery Model Order," available at [http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery\\_Model\\_Order.pdf](http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery_Model_Order.pdf)).

<sup>14</sup> 37 C.F.R. § 42.51(b)(2); *Practice Guide*, Rules and Regulations, 77 Fed. Reg. 48,762 (Aug. 14, 2012) (84 PTCJ 653, 8/17/12).

<sup>15</sup> *Practice Guide*, Rules and Regulations, 77 Fed. Reg. 48,761 (Aug. 14, 2012) (84 PTCJ 653, 8/17/12).

<sup>9</sup> 35 U.S.C. §§ 23, 24.

<sup>10</sup> 37 C.F.R. § 42.51(b)(2).

<sup>11</sup> *Office Patent Trial Practice Guide*, Rules and Regulations, 77 Fed. Reg. 48,757, 48768-69 (Aug. 14, 2012) (84 PTCJ 653, 8/17/12).

ritization is not required from the PTAB to conduct “routine discovery”—subject to applicable provisions of the Federal Rules of Evidence. Routine discovery includes:

- (1) production of any exhibit cited in a paper or testimony;
- (2) the cross examination of the other side’s declarants; and
- (3) relevant information that is inconsistent with a position advanced during the proceeding.<sup>16</sup>

The PTAB will set the times for conducting this discovery pursuant to its Scheduling Order, with the goal of meeting the intended timeline for the particular proceeding.

#### ■ Additional discovery

Additional discovery may be authorized by the PTAB, but under different standards depending on the specific post-issuance proceeding involved. For example, parties seeking additional discovery in IPR and derivation proceedings must show that such discovery is in the “interests of justice,” while parties in PGR and CBM reviews must make a slightly less stringent showing of “good cause.” An example of a request that would likely meet both of these standards is where the evidence on a particular issue raised by a party is “uniquely in the possession of the party that raised it.”<sup>17</sup> The parties may alternatively agree to additional discovery between themselves without prior authorization of PTAB.<sup>18</sup>

#### ■ Compelled testimony

Parties seeking to compel testimony or document production are required to file a motion for authorization with the PTAB. Parties may also file motions seeking foreign testimony or document production, but must describe how and why such testimony or document production can be taken in the foreign country, and demonstrate that the party has made reasonable efforts to secure testimony or document production in the United States.

Deposition testimony in post-issuance trials before the PTAB will likely be similar to that of Rule 30(b)(6) depositions in district court litigation, given that the party seeking direct testimony must provide notice of the deposition beforehand, must identify the scope and content of the deposition, and must serve a list and copy of all documents on which the party intends to rely.<sup>19</sup> Parties also have the ability to file a motion to quash deposition notices if there are defects in the notice. Importantly, parties are required to make any objections to content, form, or manner of taking the deposition on the record of the deposition, otherwise they are waived.<sup>20</sup>

#### ■ Live testimony

As a general rule, testimony before the PTAB will be presented in written format. Live testimony may be required in instances where the PTAB wishes to assess the demeanor of a witness in determining credibility. Live testimony will be decided by the PTAB on a case-by-case basis, and may be appropriate in contested cases such as those involving derivation, where miscon-

duct is alleged to have occurred during the proceeding, or where testimony is to be taken through an interpreter.<sup>21</sup>

## Strategic Considerations

These new post-issuance proceedings raise important strategic considerations for both challengers and patent holders alike. While these new proceedings provide a potentially cheaper and faster alternative to litigation, a final written decision from the PTAB carries with it powerful estoppel provisions that bind both parties and those acting in privity with them. As explained by the PTO:

“As to the estoppel provisions, the final rule clarifies that a petitioner who has not settled, or the real party in interest or privy of such petitioner, is estopped in the Office from requesting or maintaining a proceeding with respect to a claim for which it has obtained a final written decision on patentability in an *inter partes* review, post-grant review, or a covered business method patent review on any ground that the petitioner raised or reasonably could have raised during the trial (§ 42.73(d)(1)). Further, the final rule tailors the provisions to provide that a patent applicant or patent owner whose claim is canceled is precluded from taking action inconsistent with the adverse judgment, including obtaining in any patent: (1) A claim that is not patentably distinct from the finally refused or cancelled claim; and (2) an amendment of a specification or drawing that was denied during the trial (§ 42.73(d)(3)). In this regard, the final rule also eliminates the provision precluding obtaining a patent for a claim that could have been filed (proposed § 42.73(d)(3)(ii)).”<sup>22</sup>

Accordingly, parties to IPR, PGR, and CBM proceedings “and those in privity with them” are estopped after the PTAB issues a final written decision from taking or maintaining any action in the PTO or asserting invalidity defenses in litigation inconsistent with a PTO decision on any ground raised or that reasonably could have been raised. Like a trial in federal district court, these post-issuance PTAB proceedings can significantly impact a party’s future options.

The specter of estoppel arising from PTAB trials is likely to be an important factor driving decision-making for parties considering or involved in patent disputes. Parties should consider, for example, the potential impact of estoppel on related and pending patent applications and continuations before the PTO. In addition, parties should be aware of the potential challenges associated with collecting compelled discovery. Parties to IPR proceedings, for example, may encounter difficulty securing compelled discovery under the higher “interests of justice” standard—discovery that might otherwise be available in a federal district court—and failure to secure such discovery will likely not excuse the petitioner from the estoppel effect that precludes them from raising the same defense later in a district court proceeding. This estoppel effect could be magnified even further in PGR proceedings where the scope of grounds upon which the petition can be based are much broader. Most important, however, patent holders and challengers alike should make sure that their strategies in litigation and any PTAB proceedings are closely

<sup>16</sup> *Id.*

<sup>17</sup> *Practice Guide*, Rules and Regulations, 77 Fed. Reg. 48,761 (Aug. 14, 2012) (84 PTCJ 653, 8/17/12).

<sup>18</sup> 37 C.F.R. § 42.51(b)(2).

<sup>19</sup> 37 C.F.R. § 42.53(c)(3).

<sup>20</sup> 37 C.F.R. § 42.53(f)(8).

<sup>21</sup> *Practice Guide*, Rules and Regulations, 77 Fed. Reg. 48,762 (Aug. 14, 2012) (84 PTCJ 653, 8/17/12).

<sup>22</sup> *Rules of Practice for Trials Before the PTAB and Judicial Review of PTAB Decisions*, Rules and Regulations, 77 Fed. Reg. 48,614 (Aug. 14, 2012) (84 PTCJ 653, 8/17/12).

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aligned, and that they are represented in PTAB trials by counsel with the skills necessary to advocate their positions in a trial setting.

### **Conclusion**

The new “trial-like” post-issuance PTAB proceedings implemented under the AIA for challenging the validity of patents will allow parties to secure, assess, and de-

velop evidence in a way that has until now been impossible in patent reexamination proceedings. And while post-issuance proceedings before the PTAB may be a cost-effective alternative to patent litigation, parties seeking to protect or invalidate intellectual property in these new “trial” proceedings should carefully consider the potential impact of estoppel.