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VIA EMAIL: post_grant_review@uspto.gov

Mail Stop Patent Board
Director of the United States Patent and Trademark Office
**Attn: Lead Judge Michael Tierney,
Post-Grant Review Proposed Rules**
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**Re: COMMENTS REGARDING IMPLEMENTATION OF POST-GRANT REVIEW
UNDER THE LEAHY-SMITH AMERICA INVENTS ACT**

The United States Patent and Trademark Office ("USPTO") has issued proposed rules (the "Draft Rules") to implement the provisions of the Leahy-Smith America Invents Act ("AIA"), which creates a new administrative post-grant review ("PGR") proceeding to be conducted at the USPTO before the Patent Trial and Appeal Board ("Board"). The provisions of the AIA related to PGR will take effect on September 16, 2012 and will generally apply to patents issuing from applications subject to first-inventor-to-file provisions of the AIA.¹ The PGR is said to be the culmination of a lengthy effort to reform the patent system through, among other things, an improved post-issuance review process.

However, in order to properly incentivize potential petitioners to utilize the PGR proceeding particularly in view of the AIA's stringent PGR estoppel provision, there must be enough of the full participation accorded to parties in litigation that challengers will be willing to risk being bound by the result. Indeed, only if post-issuance review is robust and meaningful will private parties choose

¹ The first-inventor-to-file provisions of the AIA go into effect on March 16, 2013.

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to invest the time and resources necessary to invoke the process as intended by Congress to help the USPTO remove patents that should not have been issued in the first place.

The following comments are submitted in response to the USPTO's request for public comments on the Draft Rules and implementation of the PGR proceedings. The comments below specifically focus on (1) the "final and nonappealable" nature of a determination by the Director denying a petition for PGR; (2) the limited discovery available during PGR; and (3) the estoppel relating to arguments that "reasonably could have been raised" during PGR.

I. BACKGROUND

Congress's stated intent in enacting the AIA and the USPTO's primary goal in implementing the proposed regulations are to establish a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation. In furtherance of these goals, the AIA is intended to enhance opportunities for innovation and entrepreneurial investment and to better harmonize U. S. patent laws with those of other countries. In particular, the AIA is intended to create administrative proceedings in the USPTO that provide third parties additional options for challenging issued patents. One of the most anticipated post-issuance proceedings created by the new law is the PGR proceeding, which can be instituted in response to a petition filed within nine months after the date of the grant of the patent or of the issuance of a reissued patent.²

The PGR proceeding ostensibly provides another layer of quality control in support of the USPTO's effort to improve the patent system through higher quality patents. Particularly, the PGR proceeding is meant to provide a less expensive and faster administrative alternative to litigation. However, the aims of Congress in creating this proceeding can only work if third parties are

² 35 U.S.C. § 321(c)

incentivized to actually challenge issued patents in the USPTO rather than waiting for costly lawsuits to arise.

In a PGR, a third party has the opportunity to challenge the validity of a recently issued patent on any ground that could be raised under 35 U.S.C. 282(b)(2) or (3) for example under 35 U.S.C. §§ 102 or 103 on the basis of any type of prior art as well as under 35 U.S.C. §§ 101 and 112.³ Once a petition for PGR is granted, the proceeding is intended to move quickly and conclude within one year of its institution (absent good cause for a six-month extension) by the USPTO's final determination.⁴ In contrast to traditional *inter partes* reexamination's "substantial new question of patentability" standard, the Director may not authorize a PGR to be instituted, unless the Director determines that the information presented in the petition demonstrates that it is "more likely than not that at least one of the claims challenged in the petition is unpatentable."⁵ This standard may be satisfied upon a showing that the petition raises a novel or unsettled legal question that is important to other patents or patent applications.⁶

Although, a final determination of the Board going to the merits of a PGR can be appealed to the Court of Appeals for the Federal Circuit, a USPTO refusal to grant a petition for PGR is "final and nonappealable."⁷ Potential petitioners would be further incentivized to utilize the PGR proceeding if the USPTO offered a mechanism wherein it would at least grant a request for reconsideration of an initial refusal to grant a petition for PGR.

In addition, the AIA authorizes the USPTO to promulgate litigation-type discovery rules for both PGR and *inter partes* review proceedings. The Office considered a procedure for discovery similar to those available in district court litigation. However, discovery of such a scope has been

³ Challenges for failure to disclose best mode are not permitted in PGR.

⁴ 35 U.S.C. 326(a)(11) requires that the final determination in any post-grant review be issued not later than 1 year after the date on which the Director notices the institution of a proceeding under this chapter, except that the Director may, for good cause shown, extend the 1-year period by not more than 6 months

⁵ 35 U.S.C. § 324(a).

⁶ 35 U.S.C. § 324(b)

⁷ 35 U.S.C. § 324(e)

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sharply criticized as inviting the type of abuse, exploitation and gamesmanship often associated with patent litigation in district court. It is argued that such broad discovery measures would hinder the "just, speedy, and inexpensive determination of every action and proceedings."⁸ According to the Office, additional discovery increases proceeding costs as well as the expenditures of time by the parties and the Board. To promote effective discovery, the Draft Rules would require a showing of "good cause" to authorize a request or motion for additional discovery.⁹ 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. The Draft Rules propose a default scheduling order providing for limited discovery as a matter of right. Additional discovery may be sought on a case-by-case basis. According to the Draft Rules, a request for additional discovery should be weighed by assessing the economic impact on the opposing party.

Finally, a petitioner in a PGR (or the real party in interest or privy to the petitioner), may not request or maintain a PGR proceeding before the Office on any ground that the petitioner raised or reasonably could have raised during that post-grant review.¹⁰ Estoppel against a PGR petitioner, or the real party in interest or privy to the petitioner, is effective in certain civil actions and certain other proceedings before the International Trade Commission if that post-grant review results in a final written decision under 35 U.S.C. 328(a).¹¹

As set forth below, the USPTO should promulgate rules that: (1) allow unsuccessful petitioners to request reconsideration of a denial of petitioner's requests for PGR; (2) provide for relatively broad discovery and participatory rights that at least match those offered in the litigation

⁸ See Introduction to An E-Discovery Model Order available at http://www.cafc.uscourts.gov/images/stories/announcements/Ediscovery_Model_Order.pdf.

⁹ Proposed § 42.224

¹⁰ 35 U.S.C. § 325(e)(1)

¹¹ 35 U.S.C. § 325(e)(2)

context, and (3) avoid strict estoppel for arguments that "reasonably could have been raised" by a petitioner against the patent owner.

II. COMMENTS TO PROPOSED RULES

A. Petitioners Should be Allowed to Request Reconsideration of USPTO's Rejection of a Petition for Post-Grant Review

According to the AIA, the Director may not authorize a PGR unless the Director determines that the information presented in the requesting petition would demonstrate that it is "more likely than not that at least one of the claims challenged in the petition is unpatentable."¹² The AIA further states that the determination required under 35 U.S.C. 324(a) may also be satisfied by a showing that the petition "raises a novel or unsettled legal question that is important to other patents or patent applications."¹³ The Director will determine whether to institute a PGR pursuant to a petition filed within three months after: (1) receiving a preliminary response to the petition; or (2) if no such preliminary response is filed, the last date on which such response may be filed.¹⁴ The Director will notify the petitioner and patent owner in writing, of the Director's determination and will make such notice available to the public as soon as is practicable.¹⁵ The AIA provides that the USPTO's decision to reject a petition and refuse to institute a PGR "shall be final and nonappealable."¹⁶

To ensure oversight of the decision-making process and the application of the threshold standards for instituting a post-issuance challenge, the USPTO should adopt regulations that establish a procedure by which petitioners can seek reconsideration of a denial of a petition within the USPTO. Such a practice would be consistent with other circumstances in which petitioners are allowed to seek reconsideration of adverse decisions. For example, under the current *inter partes* reexamination standard:

¹² 35 U.S.C. § 324(a)
¹³ 35 U.S.C. § 324(b)
¹⁴ 35 U.S.C. § 324(c)
¹⁵ 35 U.S.C. § 324(d)
¹⁶ 35 U.S.C. § 324(e)

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(a) *Reexamination.* - Not later than 3 months after filing of a request for inter partes reexamination under section 311, the Director shall determine whether a substantial new question of patentability affecting any claim of the patent concerned is raised by the request, with or without consideration of other patents or printed publications

...

(c) *Final decision.* - A determination by the Director under subsection (a) shall be final and non-appealable . . .¹⁷

Under the *inter partes* reexamination law, when the Director makes a determination that a substantial new question of patentability affecting a particular claim has not been raised, the Director will not order *inter partes* reexamination of the patent with respect to those claims. This determination is similarly final and non-appealable.¹⁸

The Code of Federal Regulations ("C.F.R.") do not grant the Board of Patent Appeals and Interferences ("BPAI") jurisdiction to decide non-appealable determinations relating to a lack of substantial new questions of patentability. However, 37 C.F.R. § 1.927 states that "[t]he third party requester *may seek review by a petition to the Director . . . of the examiner's determination refusing to order inter partes reexamination*" and that "[i]f no petition is timely filed or if the decision on petition affirms that no substantial new question of patentability has been raised, the determination shall be final and nonappealable." (emphasis added). Accordingly, under the *inter partes* reexamination paradigm, a petitioner seeking *inter partes* reexamination can seek reconsideration by filing a petition with the Director if an examiner denies a petition for reexamination.

The right to seek reconsideration of denial of a petition for PGR will encourage parties to use the PGR procedure particularly in light of the fact that the costly PGR petition fee is non-refundable even if the Director denies the petition.¹⁹ Moreover, the right to seek reconsideration of petition

¹⁷ 35 U.S.C. § 312

¹⁸ 35 U.S.C. § 312(c)

¹⁹ The rule proposes filing fees for PGR starting at \$35,800 for the first twenty claims, and the fees increase for every additional ten claims that are the subject of review.

denial will further provide an incentive to the petitioners to use post-issuance proceedings since filing a petition identifies the petitioner as an interested party that could trigger an infringement suit.

Thus, the Office should adopt a rule that is similar to 37 C.F.R. § 1.927. Particularly, a rule should be adopted for PGR that states if the initial review of the petition is found that more likely than not that at least one of the claims challenged in the petition is not unpatentable or that a novel or unsettled legal question that is important to other patents or patent applications is not present, the petitioner may request reconsideration of that determination within one month of its determination. The final dismissal of a petition requesting a PGR after reconsideration should be confirmed by at least two ALJs.

B. Parties to a PGR Should Be Permitted Adequate Discovery to Fully Develop Claims

The USPTO should allow the parties the opportunity to obtain adequate discovery to incentivize the use of PGR in order for the parties to fully develop their arguments. The scope of discovery procedures under the proposed rules is rather limited in comparison with the liberal discovery of an opponent's case afforded in federal district court. For example, a PGR "trial" is a proceeding that includes the patent owner's single response or motion to amend claims, the petitioner's response and opposition to the amendment, the patent owner's reply, motions by both parties and discovery including cross-examination of both parties' expert witnesses.

If the Director institutes a PGR, it will also issue a scheduling order for the "trial phase" of the proceeding. The scheduling order will provide periods for the patent owner's response to the decision to institute the PGR, a reply by the petitioner to the patent owner's arguments and a reply by the patent owner to the petitioner's reply.

During a PGR, the parties can request discovery limited to evidence directly related to factual assertions advanced by either party.²⁰ Discovery in PGR consists of "routine" and "additional" discovery. Routine discovery includes the production of exhibits and cross-examination of an

²⁰ 35 U.S.C. § 326(a)(5)

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opponent's declarant. Additional discovery in a post-grant review is limited to evidence directly related to factual assertions advanced by a party to the proceeding and that the standard for additional discovery is good cause.²¹

The Draft Rules provide that the Director shall prescribe regulations setting forth the standards and procedures for discovery of relevant evidence that is directly related to factual assertions by either party. The Draft Rules provide that a "good cause" standard be used for approval of discovery requests in a PGR proceeding (an "interests-of-justice" standard is to be used in reviewing additional discovery requests in *inter partes* reviews and derivation proceedings).

The decision of the Board whether to grant requests for additional discovery will likely turn on a paper record, affidavits, deposition transcripts and other relevant documents. The Draft Rules explain that "[t]he Board expects that most petitions and motions will rely upon affidavits of experts" including initial expert declarations supporting the petition, and the patent owner's expert testimony responding to the decision instituting the proceeding.²² Although cross-examination may take place in the presence of an Administrative Patent Judge (APJ) when the Board considers the demeanor of a witness to be critical to assessing credibility, the proposed rules do not contemplate presentation of live witness testimony at the final oral hearing before the three-APJ panel.

The Draft Rules would require mandatory initial disclosure of all "noncumulative information that is inconsistent with a position advanced by the patent owner or petitioner during the proceeding."²³ Furthermore, the party submitting the information must specify its relevance, including where the information is presented in a document and how it is pertinent to the claims. There is little explanation in the Draft Rules of the scope of this routine "discovery" requirement, except that it is intended to avoid the practice of requests for additional discovery. The proposed

²¹ Proposed § 42.224.

²² Fed. R. Evid. 705; and proposed § 42.65.

²³ Proposed § 42.51(b)(3)

rules indicate that sanctions under § 41.12(a) could be imposed for misconduct including the failure to comply with an applicable rule. The Draft Rules state that "an example of a failure to comply with an applicable rule includes failure to disclose a prior relevant inconsistent statement."

When defining appropriate discovery standards, it is critical that the USPTO consider whether its discovery rules advance the statutory goal of providing a meaningful and, indeed, preferable alternative to litigation for weeding invalid patents out of the patent system. The discovery standards are particularly important when considered with the potentially onerous estoppel provisions associated with PGR (discussed below).

Proper PGR discovery rules in this context should have several features. Foremost, the USPTO should make clear that post-grant review proceedings are "contested cases" for which third party discovery can be modeled under the provisions of 35 U.S.C. § 24.96. This would allow the patent owner and petitioner to receive discovery from third parties having relevant information about the subject invention or certain prior art. Additionally, the time frame for discovery should provide petitioners with adequate time to investigate any substitute claims submitted by the patent owner before the petitioner must reply.

The USPTO should balance burdening the parties in the PGR with the time consuming trappings of discovery in federal court litigation with Congress's suggestion that alternate discovery rules were appropriate for PGR.²⁴ Congress stated that possible discovery procedures for post-grant reviews should be "limited to evidence directly related to factual assertions advanced by either party in the proceeding."

Moreover, for PGR, the AIA states that the petitioner cannot assert in a civil action "that the claim is invalid on any ground that the petitioner raised or reasonably could have raised" during the post-grant review. As a result of this estoppel provision, it will be of critical strategic importance to potential PGR petitioners in determining whether to withhold validity challenges for district court

²⁴ 35 U.S.C. § 326(a)(5).

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litigation or proactively challenge "poor" patents in a PGR proceeding. For example, a potential petitioner may forgo filing a PGR petition if they fear obtaining insufficient discovery in PGR and then being estopped from later developing a legal theory in district court litigation once the broader discovery standards enable access to critical information withheld in the PGR proceeding before the USPTO.

Thus, adequate discovery rules that allow a party to fully establish its position are essential to the success of the post-issuance reviews.

C. The USPTO Should Interpret the Estoppel Provision Relating to Arguments that "Reasonably Could Have Raised" in a Lenient Fashion

The AIA provides that the petitioner (or the real party in interest or in privy with the petitioner) in a post-grant review of a patent may not request or maintain a proceeding before the Office (*e.g.*, an *inter partes* review) on any ground that the petitioner raised or reasonably could have raised during that post-grant review.²⁵ The AIA further provides for estoppel against a post-grant review petitioner in civil actions and certain other proceedings before the International Trade Commission if that post-grant review results in a final written decision.²⁶ Indeed, the estoppel effects of PGR are particularly onerous in that (1) the forums in which legal estoppel apply are broad in PGR (the estoppel created by PGR applies to all USPTO proceedings, ITC proceedings, and district court litigations);²⁷ (2) the time at which the estoppel attaches is much earlier for PGR (estoppel from a post-grant review attaches upon the final written determination by the PTAB);²⁸ and (3) the grounds included in the legal estoppel under PGR are more numerous than those pertaining to *inter partes* reexamination.

²⁵ 35 U.S.C. § 325(e)(1)

²⁶ 35 U.S.C. § 325(e)(2)

²⁷ The estoppel created by *inter partes* reexamination applies only to district court litigation.

²⁸ For *inter partes* reexamination, all appeals need to be exhausted before the estoppel attaches.

With regard to a claim on any ground that "the petitioner raised" during a PGR, it would certainly be reasonable and expected that a party should be estopped from "taking another bite at the apple" and raising the same issue again in a later proceeding. However, estopping a petitioner from presenting an argument that the petitioner "reasonably could have raised" during that PGR could have the unintended consequence of stifling the very intent Congress and the USPTO are hoping to achieve using PGR. Indeed, the onerous estoppel provision with regard to an argument the petitioner "reasonably could have raised" during that post-grant review runs counter USPTO's primary goal in implementing the proposed regulations to improve patent quality and limit unnecessary and counterproductive litigation costs.

In order to achieve the USPTO's goals of increasing the quality of patents, the USPTO should not strictly preclude petitioners from later bringing legal theories in an *inter partes* review (IPR) proceeding that it "reasonably could have been raised" during a PGR proceeding. The USPTO should narrowly interpret this standard by promulgating rules setting forth a definition for what must be shown to demonstrate that an argument "reasonably could have been raised" during PGR.

The undersigned argues that rules going to the "reasonableness" standard include only information within the *actual knowledge* of the petitioner at the time of filing the petition. For example, a petitioner who becomes aware of a third party patent that has improperly issued, should be permitted to challenge the improperly issued patent in a PGR proceeding using, for example, a known prior art printed publication, without the undue burden of conducting a costly and time consuming search for additional art to avoid being estopped under what amounts to a "could have known" or "should have known" standard.

If the AIA's estoppel provisions related to PGR are narrowly interpreted, the speed of the proceeding in combination with the potentially limited scope of discovery (discussed above) is likely

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to negatively prejudice the PGR petitioners in downstream USPTO proceedings (*e.g., inter partes* review), as well as in ITC and district court litigation.

Thus, if narrowly interpreted the AIA's estoppel provisions will likely cause many parties to balk at petitioning for PGR particularly with respect to a high-stakes patent. As a result, an important strategic consideration will be whether to save validity challenges for subsequent litigation.²⁹

It would greatly incentivize third parties to take advantage of the PGR proceeding if the USPTO took a lenient interpretation of what constitutes arguments that the petitioner "reasonably could have raised" during PGR. It would further the goals of Congress and the USPTO by lowering the risk associated with estoppel to a party who files for PGR and ultimately result in a reduction in costly litigation and increase patent quality.

²⁹ If the post-grant review is terminated with respect to a petitioner, no estoppel under 35 U.S.C. 325(e) will attach to the petitioner, or to the real party in interest or privy of the petitioner, on the basis of that petitioner's institution of that post-grant review.

III. CONCLUSION

We respectfully urge the USPTO to consider the comments herein and modify the Draft Rules accordingly. The proposals will provide would-be PGR petitioners with the clarity and procedural rights necessary to make the new PGR proceedings the viable and attractive alternatives to litigation that Congress intended. By adopting the recommendations herein, the USPTO will advance Congress's goal of increasing patent quality, will allow the U.S. patent community to focus its time and resources on innovation, and will reduce the burden on Article III courts.

Best regards,

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