

## The rules of the post-grant game

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So that it can continue to keep up with the workload, the USPTO has proposed some changes to the PTAB's post-grant proceedings. Michael Cuiello and Adam College of Banner & Witcoff examine the pros and cons.

The Patent Trial and Appeal Board (PTAB) at the US Patent and Trademark Office (USPTO) has been quite busy over the past three years with new post-grant patent proceedings created by the America Invents Act. As of July 31, 2015, the PTAB had received more than 3,600 petitions for *inter partes* reviews (IPRs), post-grant reviews (PGRs), and reviews of covered business method (CBM) patents. Of these 3,600 cases, trials have been instituted in 1,576.

As it stands, the PTAB is resolving more than three petitions and one instituted trial per calendar day, and every case has been resolved—so far—within the one-year mandated timeframe and without needing to resort to the statutorily provided six-month ‘good cause’ extension or the safety-valve ‘cap’, which allows the patent office to limit the number of incoming petitions.

While the PTAB has done an admirable job of keeping pace with petition filings, which have increased year after year with no sign of slowing, the obvious question is whether it can keep up. The USPTO’s most recent proposal for rule changes to these proceedings may provide a clue to answering this question. Currently, a trial proceeding is conducted in two phases. First, a three-judge panel initially decides whether a petitioner has made a threshold showing to justify the institution of a full trial against the validity of a patent. If the showing is made, the same three-judge panel conducts a full trial in which evidence and arguments from the petitioner and patent owner are fully adjudicated.

In August, the USPTO requested public comment on a proposed rule which would have a single judge, instead of the current three-judge panel, determine whether to institute IPR, PGR, and CBM proceedings during the first phase. This proposed rule would not alter the size of the trial panel; if the single judge institutes the trial, the trial still will be adjudicated by three judges. The proposed rule does not include whether the single judge should be part of the final trial panel, and the USPTO seeks the public’s thoughts on this sub-question in its request for comments.

### **Is it fair?**

The desired effect on the PTAB’s workload is clear: more judges would be available to make trial-institution decisions and each judge should, in theory, be able to make decisions more quickly if freed from the shackles of having to persuade another judge to institute or decline proceedings. A speedy clearing of the incoming docket, however, should be carefully balanced against potential issues caused by having a single judge act as a gatekeeper to post-grant proceedings, even as an increasing number of petitions come down the pipe.

At the outset, there is a belief within the patent bar that one judge on the three-judge panel already takes a lead on reviewing each petition with the other two judges taking a less involved role. If this perception is correct, the proposed programme may simply formalise some aspects of the panels' current approach and any efficiency gains may not be as great as perceived. For the same reason, a significant reduction in the number of trial institution decisions and ultimate outcomes may not be seen if the programme is implemented. Nonetheless, the proposed programme may raise questions of fairness, either actually harming parties in PTAB proceedings or just creating perceptions that one party is favoured.

Consider the situation where there is a decision by a single judge not to institute a trial, which by statute would be final and not reviewable by any appeals court. The absence of two other judges to participate in the institution decision certainly suggests that institution decision errors could be more frequent, with no recourse to correct them other than to pursue a much more expensive lawsuit against the patent owner in district court to invalidate the claims. One way of possibly addressing this issue could be to permit a petitioner to request a rehearing before the full three-judge panel of a decision by a single judge not to institute a trial.

The patent owner may also experience unfairness during a single-judge-first phase. If a single judge erroneously decides to grant a trial, the patent owner must now shoulder the financial burden of defending its patents, although this harm to the patent owner is ameliorated partially by an upholding of the claims by the three-judge tribunal, as the petitioner is now estopped from raising certain challenges against what has been determined to be a valid patent.

Further complicating the issue is the fact that the USPTO is simultaneously proposing other new rules to PTAB proceedings without considering the interplay between them. For example, immediately before proposing the rule for a one-judge gatekeeper deciding whether to institute trials, the USPTO proposed another rule change permitting a patent owner to file expert testimony with its preliminary response during the institution phase.

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As it stands, before institution of a trial, only the petitioner can file expert testimony with its petition. This is considered fair because the institution decision is only preliminary and if a trial is instituted the patent owner is given a full opportunity to contest the petitioner's arguments and provide its own expert testimony and additional arguments beyond those it presented with its preliminary response.

Under the additional proposed rule, both parties would be able to file expert testimony to be considered for the purpose of the institution decision, but no cross-examination of the experts would be provided until after the trial is instituted. Allowing both parties to file expert testimony may seem fairer, but this proposal changes the very nature of the two-stage proceeding by transforming the institution stage from an initial determination of whether the petitioner has made a threshold showing to a proceeding more similar to the actual trial, in which each party's evidence is judged against the other party's evidence. The transformation is evident when considering the possible outcomes under the current and proposed rules.

### **Possible outcomes**

Currently, when at least two judges of a three-judge panel decide at the institution stage that the petitioner has not even made a threshold showing when given the opportunity to present expert testimony without the patent owner being able to cross-examine the petitioner's expert and without the patent owner being able to present its own expert, there is high confidence in a decision not to institute being correct.

And, if the panel decides to institute the trial, even if in error, the effects of such an error are theoretically voided because the patent owner is given the opportunity during trial to present its full defence with its own expert testimony, and because each party is able to test the validity of the other's expert testimony through cross-examination. That is, under the current rules the institution stage is intended to be slanted in favour of the petitioner because it is meant only to measure whether the petitioner has presented sufficient arguments and evidence to proceed, without fully vetting those arguments and evidence.

Now consider the same scenarios, but with the proposed rule changes. In one such scenario, a single judge who might have otherwise decided to institute a trial based on the petitioner's expert testimony if considered alone could instead be persuaded by the patent owner's expert testimony to not institute the trial. In this scenario, if the single judge makes an error in law or fact, or if the patent owner's unchallenged expert testimony turns out to be unreliable or false, the result could be an unjust dismissal of a petitioner's case with no possibility of review, because such decisions not to institute trials are unchallengeable.

In the opposite scenario under the proposed rules in which the judge decides to institute the trial, theoretically any error during the institution stage would be corrected by the full trial, but the three-judge panel during the trial may in practice be deferential and less likely to 'overturn' the initial judge's decision to institute proceedings based on the notion that each side already had a 'fair' opportunity to present its case and evidence at the institution stage. In either of the

scenarios under the proposed new rules, there is the potential to drastically alter the structure of the proceedings away from the two-stage design that was originally intended by Congress.

The PTAB has been proactive and willing to modify its rules and procedures based on its experience and feedback from the public over the first three years of these proceedings, and in general the changes that have been implemented have been beneficial in providing a true alternative to the district court for invalidity challenges.

However, having a single gatekeeper judge for entry into the post-grant trial process and/or permitting patent owners to file expert declarations during the institution stage—even if it were ultimately to speed up that process—would need careful consideration in order to avoid the possible scenarios discussed above that could ultimately provide less fair proceedings.

We look forward to reading the comments and suggestions submitted to the USPTO by the public once they are released later this year and the USPTO's ultimate decision on implementing such rules to see whether such concerns are addressed.

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