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## *Patent and Trademark Office/Patents*

### **Practitioners Cite 'Wait-and-See' Attitude As AIA Patent Challenges Slow to a Trickle**

■ **Summary:** *AIA-based challenges to issued patents reduced to a trickle as parties prefer to 'wait-and-see' how the Patent Trial and Appeal Board will process its small case load.*

Only 43 inter partes review petitions and 13 petitions challenging covered business methods, submitted by a total of 33 companies, have been filed in the eight weeks since the Sept. 16 availability of those administrative litigation options enabled by the America Invents Act.

Most of those filings, in fact, were in the first four weeks. From Oct. 15 to Nov. 9, only nine IPR and zero CBM petitions were filed. Further, of the CBM petitions, nine were filed by Liberty Mutual Life Insurance Co. against patents owned by its competitor, Progressive Casualty Insurance Co.

Nevertheless, practitioners familiar with practices at the Patent and Trademark Office's board—now named the Patent Trial and Appeal Board—and with the history of adding new post-grant procedures were not surprised at all. Filings for ex parte reexamination in 1981 and for inter partes reexamination in 2000 were also sparse when those procedures were first introduced, according to the experts.

Similarly, potential patent challengers are adopting a "wait-and-see" attitude today, they said, as the PTAB is probably months away from deciding issues either in favor of the petitioner or the patent owner.

The practitioners also contended that the high fees set by the PTO to file petitions will limit challenges primarily to companies already in litigation in court. The additional fee for the administrative challenge, the experts said, is easier to justify given that the litigation costs will already be high.

**AIA Changes Post-Grant Challenge Options.** Three means of challenging issued patents existed before the Sept. 16, 2011, enactment of the AIA: ex parte reexamination, inter partes reexamination, and the interference claim to priority of invention.

Only interferences went to the board. Reexaminations were handled initially by the same pool of examiners of initial applications, with a "central reexamination unit" (CRU) added in 2005 (70 PTCJ 418, 8/5/05). Appeals of reexaminations are to the board.

The AIA (Pub. L. 112-29) added four procedures that go directly to the PTAB.

Section 6 of the legislation created the IPR procedure, with a higher threshold for the PTO to accept a challenge than the inter partes reexamination procedure it replaces.

The section also added a new "first window" post-grant review (PGR) procedure allowing challenges within nine months of an issued patent on any ground, not just prior art-related issues available in IPR proceedings. A PGR challenge will not be available until March 16, though, and after that, it can only be used against a patent applied for on or after that date.

Section 18 of the AIA set up a new "transitional program" specifically aimed at allowing post-grant review of a "covered business method" (CBM) patent, regardless of when it was issued.

Finally, with the move to a first-inventor-to-file (FITF) system scheduled for March 16, interference practice will eventually end. AIA Section 3(i) described the replacement derivation proceeding, allowing inventorship challenges only upon a showing that a current patent owner derived the invention from a third party.

Ex parte reexamination remains an option for both patent owners and third party challengers, but again, the CRU is the first point of analysis for such challenges.

**Fee Change Leads to 'Bubble' Prior to Sept. 16.** The AIA also gave the PTO the opportunity to change the fee for ex parte reexamination and set fees for the new procedures. The agency's first pass at those fees was a bit of a shock to the patent community (84 PTCJ 794, 9/14/12).

The fee for a petition for ex parte reexamination went from \$2,520 to \$17,750. The fee for inter partes reexamination was \$8,800 before Sept. 16; the base fee on that date for its IPR replacement was \$27,200, with additional fees if more than 20 claims are challenged. A CBM challenge starts at \$35,800 and increases for additional claims as well.

At least in part, these fee changes led to a "bubble" of patent reexamination filings at the PTO just before the Sept. 16 addition of the new litigation options (84 PTCJ 961, 10/5/12).

Attorneys and staff at Sterne, Kessler, Goldstein & Fox, Washington, D.C., tracked filings before and after that date.

In the first 15 days of September, 291 inter partes reexaminations and 245 ex parte reexaminations were filed, according to SKGF's figures. But from Sept. 16 to Nov. 7, only 26 ex parte reexamination requests were

filed and the combined IPR and CBM petitions totaled 56.

**History of Filings Below Predictions.** However, the practitioners were not convinced that the fee increases were solely the reason for the low number of filings since Sept. 16.

“I do not believe the fees are much of a factor,” according to Nancy J. Linck, former PTO solicitor and Board of Patent Appeals and Interferences administrative patent judge. “They are nothing compared to court litigation and attorney fees.”

“Certainly the fees will make people go slow,” Bruce H. Stoner of Greenblum & Bernstein, Reston, Va., told BNA. “This is not something for somebody who wants to dabble in bad patents, for such high fees.” But it’s a case of “the devil you know compared to the devil you don’t know” as well, he said, with reexamination being the devil the patent community knows.

Stoner, a former chief APJ at the PTO, recounted the slow take-up by the patent community of ex parte reexamination after it first became available in 1981. In the first full year of its availability, only 187 ex parte reexamination petitions were filed, though the predictions, Stoner said, were that the filings would total 10,000 or more.

Reality defied prediction again when inter partes reexamination became available under the American Inventors Protection Act of 1999, he said.

At that time, too, part of the justification for implementing inter partes reexamination was to allow challenges to questionable business method patents (64 PTCJ 215, 7/12/02). However, according to the PTO’s statistics, only 53 requests were filed in the first five years of the availability of inter partes reexamination, though the agency repeatedly predicted over 400 filings in each of those years.

Stoner was consequently not surprised at all that the AIA-procedure filing total in eight weeks was only 56. Ignore the 2012 bubble, he said, and the total is actual on “kind of about the same pace” as recent filings of inter partes reexaminations: 281 in fiscal year 2010, 374 in 2011, and 270 through the first nine months of 2012.

Lori A. Gordon of Sterne Kessler cited the same statistics and said reexamination petitions increased as requesters became more comfortable with examination by the CRU. “I anticipate IPRs, like inter partes reexamination, will have a slow start and then filings will increase as more data about the new contested case proceedings and the Patent Trial and Appeal Board becomes available,” she said.

**Net Two Financial Products in CBM Filings.** During debate on the addition of Section 18—the business method transitional program—to the AIA, co-sponsor Sen. Charles E. Schumer (D-N.Y.) cited “the scourge of business method patents currently plaguing the financial sector.”

“This is not a small problem,” he said. “Around 11,000 new applications for patents on business methods are filed every year, and financial patents are being litigated almost 30 times more than patents as a whole.”

Excepting the Liberty Mutual filings against Progressive, arguably only one of the other four CBM petitions challenged a patent (7,941,357 on a “trading system”) directed specifically to products in the financial services industry. *Bloomberg Inc. v. Markets-Alert Pty. Ltd.*, No. CBM2013-00005 (P.T.A.B., petition filed Oct. 15, 2012).

The three other petitions test the breadth of the definition of a covered business method by challenging:

- a patent (5,361,201) titled, “Real estate appraisal using predictive modeling,” in *Interthinx Inc. v. Core-Logic Solutions LLC*, No. CBM2012-00007 (P.T.A.B., petition filed Sept. 19, 2012);

- a patent (6,675,151), titled “System and method for performing substitute fulfillment information compilation and notification,” in *CRS Advanced Technology Inc. v. Frontline Data Inc.*, No. CBM2012-00005 (P.T.A.B., petition filed Sept. 16, 2012); and

- a patent (6,553,350), titled “Method and apparatus for pricing products in multi-level product and organizational groups,” in the first CBM challenge filed, *SAP America Inc. v. Versata Inc.*, No. CBM2012-00001 (P.T.A.B., petition filed Sept. 16, 2012).

This last petition also tests the limits as to cases already decided by courts. Versata won a \$345 million judgment in the U.S. District Court for the Eastern District of Texas after a jury found infringement of the ’350 patent and one other patent (5,878,400). *Versata Software Inc. v. SAP America Inc.*, No. 2:07-cv-00153-CE, 2011 BL 232146 (E.D. Tex. Sept. 9, 2011). The lower court issued an injunction as to the ’350 patent. 2011 BL 231512 (E.D. Tex. Sept. 9, 2011). The case is now on appeal, No. 2012-1029 (Fed. Cir., docketed Oct. 11, 2011), and the injunction has been stayed.

The CRS Advanced petition arguably offered the most detailed argument that the challenged patent fell within the CBM definition. It quotes Schumer’s comments on the Senate floor that AIA Section 18 (157 Cong. Rec. S5432 (daily ed. Mar. 8, 2011)) was “intended to cover any ancillary activities related to a financial product or service, including . . . marketing, customer interfaces, Web site management and functionality, transmission or management of data, servicing, underwriting, customer communications, and back office operations.”

**Wait-and-See Approach.** Despite the possible breadth of patents that could be considered covered business methods, Linck, now at Rothwell, Figg, Ernst & Manbeck, Washington, D.C., contended that potential challengers are being appropriately prudent.

“Taking a wait-and-see approach doesn’t have a downside,” she said. Because there are no time limits—other than the expiration of the transitional program in eight years—on CBM challenges, she said, “Why would Wall Street file now, rather than track the early filings and determine whether the board decides issues in favor of the petitioner or the patent owner?”

“Further,” Linck said, “there are no estoppels triggered by court decisions in the AIA statutes, as there are for inter partes reexamination.”

Michelle K. Holoubek of Sterne Kessler, agreed, but more because of the ambiguities in the CBM statutory provision.

“It is unclear how broadly the PTO will treat the definition of ‘covered business method patent,’ [and] once a petitioner gets past those ambiguities, there are also questions regarding what type of prior art can be used to form the basis of the petition,” she told BNA. “Weighing the steep filing fee against the uncertainties, many companies are risk-averse and waiting for others to experiment and define the boundaries. Once those

boundaries start to be defined, I expect that the use of CBM will increase.”

As to IPR proceedings, “Parties do not have data points on how proceedings are handled or how the PTAB addresses cases or issues,” Sterne Kessler’s Gordon said. “Parties may be hesitant to ‘test the waters’ and risk losing the ability to present all or a portion of their invalidity defense in district court or the International Trade Commission until more data and intelligence has been developed.”

Gordon also noted the problem with estoppels related to IPR proceedings. “A party choosing to file an IPR is selecting the PTO as the forum to decide invalidity,” she said. “That party will have limited (if any) invalidity challenges available for the district court litigation should it be unsuccessful with the IPR.”

She estimated that the first decisions by the PTAB on whether to institute trials will not be issued until the first quarter of 2013, with the first final written decisions likely in a year from now.

Linck was only slightly more optimistic about the timing. “I would expect petitioners to learn a great deal by studying the actions of the board in the early cases,” she said. “The board encourages and in fact requires significant interaction and will issue a number of orders along the way.”

**Experienced Prosecutors, Litigators Waiting Too?** Stoner made observations about the likely views of the new proceedings by experienced patent attorneys. He said they “should have been assured when the final rules came out that these cases would be run more like interferences,” and that may be causing some hesitancy.

The rules are “probably uncomfortable to a lot of people who do ordinary patent prosecution before the examining groups,” he said. “It’s not litigation, but it’s more like litigation than patent prosecution.”

Conversely, BNA asked Stoner whether experienced litigators may have been dissuaded from filing because they are not registered as patent attorneys. He acknowledged that the final rules only allow pro hac vice admission by a non-registered litigator if a registered attorney is also representing the same client. However, he argued that the limitation was a good one.

“The registered attorney knows how the PTO does business,” he said. “The pro hac vice appointee may be doing the heavy rolling, but it’s always good to have someone there to say, ‘Hang on, this is the way to accomplish things most effectively before the PTO.’”

**Litigation Strategy Driving IPR Filings.** The parties that have filed IPR and CBM petitions are involved in litigation with the owners of the patents challenged in all but two cases. However, even in the 54 cases with parallel litigation, the patents challenged are not necessarily the ones at issue in federal court.

Notably, Xilinx Inc. filed a declaratory judgment action against patent holder Intellectual Ventures Inc. in the Northern California district court, No. 5:11-cv-04407-EJD (N.D. Cal., *complaint* Sept. 2, 2011), and IVM countered by filing four IPR petitions challenging Xilinx patents. Xilinx subsequently filed an IPR petition against an IVM patent, but not one the company challenged in the declaratory judgment action.

The AIA required that a CBM petition cannot be filed “unless the person or the person’s real party in interest or privy has been sued for infringement of the patent or has been charged with infringement under that patent,”

so the link to concurrent litigation in those cases is not at all surprising.

Though an IPR petition does not have that same requirement, the practitioners suggested that the requesters see the IPR proceeding as a strategic add-on to litigation.

Stoner, for example, scoffed at the argument during the debate on patent reform in Congress that led to the AIA that companies would use the new procedures without any other impetus than to eliminate “bad patents.”

“A bad patent only matters to you if it’s in your way,” he said, with litigation a clear example of a patent “in your way.”

Linck was particularly surprised by the number of filings related to patents on pharmaceuticals or biotechnology—12 in technology centers 1600 and 1700. “Due to the ‘symbiotic’ relationship of generic and brand companies, I did not expect this,” she said.

As to other reasons for filing, Linck said, “Perhaps freedom to operate in a field is a factor. There could be licensing negotiations driving the petitioner’s actions as well.”

“In some cases, it may be to protect a party’s ability to enter the marketplace, where they have identified a controlling competitor patent,” Holoubek said. “In other cases, a party may feel that litigation is inevitable, and IPR provides an ability to move things along more quickly.”

**No Rejections on Merits, But Some Problems.** Rulings by the PTAB so far have been minimal, but Stoner pointed out issues that have tripped up petitioners so far:

- failure to identify related matters or include a statement that there are none;
- exhibits not sequentially numbered;
- failure to identify lead or backup counsel;
- non-agreement of the exhibit list with the exhibits filed; and
- failure to provide the petitioner’s addresses and phone numbers.

He also noted that the board cut back the assertions by Liberty Mutual against Progressive, and has been “interactive in managing cases” in other instances as well. And in another case, he said, a PTAB panel expanded on the rules by clarifying the requirements for pro hac vice admission. *Motorola Mobility LLC v. Ar-nouse*, No. IPR2013-00010 (P.T.A.B. Oct. 15, 2012).

**Limited APJ Assignments ‘Wise.’** So far, of the 51 cases that have been assigned, only seven APJs have been assigned cases. Four of the names were familiar to Linck and Stoner from interference practice: APJ’s Sally G. Lane, Jameson Lee, Sally C. Medley, and Michael P. Tierney.

Of the other three—APJs Joni Y. Chang, Thomas L. Giannetti, and Brian J. McNamara—“Judge Chang has been on the board for awhile and was active in formulating the rules packages,” Linck said, and while the other two are new on the board, “I believe each has some litigation experience.”

She predicted that, with two other APJs to be assigned to each of the cases, the number of APJs hearing these cases will comprise a much broader set. The ex-

perienced interference judges “will be educating new APJs in the trial section,” she said.

Stoner said the PTO was doing “a wise thing by assigning the cases to a relatively tight cadre. I would bet there are very frequent meetings among those seven individuals, making sure they’re [managing the process] in the same way.”

He agreed with Linck about the other two judges on a case, and suggested that the limited number of judges initially assigned is because there are “certain people

who are really good at process. Once all the papers are in and the positions have been briefed, then you can probably put it in the hands of any APJ, [including to] another member of the panel to write the final decision.”

BY TONY DUTRA

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*Linck is a member of this publication’s advisory board.*