

# Patent Law and Litigation Newsletter

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This is the inaugural issue of the Latham & Watkins Patent Law and Litigation Newsletter. The goal of this publication is to provide useful commentary for our clients and colleagues with business concerns affected by patent law and litigation. We hope that you will find the newsletter informative and welcome any comments or suggestions for future issues.

## Post Grant Review Proceedings Under the AIA

By Thomas W. Yeh

On September 16, 2011, President Obama signed the Leahy-Smith America Invents Act (the Act) into law. The Act provides more robust options for the post-grant review of patents. New proceedings under the Act include the *inter partes* review, post-grant review, and transitional post-grant review for covered business method patents. The Patent Trial and Appeal Board (the Board), which replaces the Board of Patent Appeals and Interferences, is tasked with overseeing post-grant proceedings. The Board became active on September 16, 2012.

### *Inter partes* Review

As of September 16, 2012, *inter partes* reexamination is no longer available. Instead, those seeking to challenge the validity of an issued patent in an adversary proceeding may turn to the newly created *inter partes* review. To petition for *inter partes* review, the petitioner must not have either (1) previously filed a civil action challenging the validity of a claim of the patent, or (2) been served with

an infringement complaint more than one year prior to seeking review. The petitioner must also show a reasonable likelihood of success for invalidating at least one challenged claim. This is a higher standard than the former *inter partes* reexamination standard, which only required the petition to raise a substantial new question of patentability.

Unlike *inter partes* reexamination, all issued patents may be challenged with the *inter partes* review procedure. However, a petitioner may only request an *inter partes* review after the latter of either (1) nine months after the grant or reissue of a patent, or (2) the date of termination of any post grant review of the patent. Through this proceeding, a petitioner may challenge a patent's validity only under §§ 102 or 103, and rely only on either patents or printed publications as prior art.

The most significant difference between *inter partes* reexamination and *inter partes* review is the form of the proceedings. *Inter partes*

reexaminations were more like patent prosecutions, while *inter partes* reviews will be similar to district court litigation. After a proceeding is instituted, it progresses according to the Board's Scheduling Order. The Scheduling Order provides deadlines for both the patentee's and petitioner's discovery and response periods, which includes depositions, production of cited exhibits and production of inconsistent information.

Once the discovery period is over, the parties both file motions to exclude evidence. Admissibility of evidence is generally governed by the Federal Rules of Evidence. After all motions have been filed, parties may present oral arguments before at least three members of the Board. The Board will enter a final written decision within one year from the date a trial is instituted. A party dissatisfied with the decision may request a rehearing or appeal to the United States Court of Appeals for the Federal Circuit.

Unlike *inter partes* reexamination, petitioners and patent owners in an *inter partes* review may voluntarily elect to jointly terminate the review. Termination may occur any time until the Board reaches a decision on the merits. Estoppel attaches once the Board makes that decision. The petitioner may not maintain subsequent proceedings before the Board with respect to any claim decided on the merits on grounds the petitioner raised or reasonably could have raised during the *inter partes* review. Similarly, in district court and ITC actions, the petitioner may not assert that any claim decided on the merits by the Board is invalid on grounds the petitioner raised or reasonably could have raised during the *inter partes* review.

## Post-Grant Review

In addition to *inter partes* review, the Act provides for post-grant review proceedings. Unlike *inter partes* review, post-grant review is only available for the first nine months after a patent is granted or reissued. Once instituted, post-grant reviews proceed generally like *inter partes* reviews. One key difference between *inter partes* review and post-grant review is that petitioners may challenge patents subject to post-grant review

on any grounds of invalidity, except failure to disclose best mode. Unlike *inter partes* review, patents subject to post-grant review may also be invalidated on §§ 101 and 112 grounds, in addition to §§ 102 and 103 grounds. This encourages third parties to exercise diligence and promptly challenge newly issued patents through post-grant reviews, rather than waiting to challenge them through *inter partes* review.

The standards for instituting a post-grant review are more stringent than those for *inter partes* review. Not all patents are eligible for post-grant review; only patents issuing from applications subject to first-to-file provisions are eligible (*i.e.*, those filed on or after March 16, 2013). For patents amenable to post-grant review, the petitioner must show that it is more likely than not that at least one challenged claim is unpatentable. According to Chief Judge Smith of the Board, this is a higher standard than the reasonable likelihood of success standard for *inter partes* review. The "more likely than not" standard requires a greater than 50 percent chance of prevailing, while the "reasonable likelihood" standard includes a 50/50 chance. In the legislative history, Senator Jon Kyl explained the standards differ because "some of the issues that can be raised in post-grant review, such as enablement and Section 101 invention issues, may require development through discovery. The office wants to ensure that petitioners raising such issues present a complete case at the onset." This is consistent with the AIA's general goals of increasing efficiency in resolving patent disputes while minimizing vexatious litigation tactics. The practical effect of the differing standards remains to be seen.

## Transitional Program for Covered Business Method Patents

The Act provides for a transitional program for covered business method patents (TPCBM). Only parties that have already been sued or charged with infringement of a covered business method patent may institute a TPCBM proceeding. TPCBM proceedings allow accused infringers to challenge certain business method patents before the Board, instead of in district court litigation.

Covered business methods are defined as those claiming “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.” The exact contours of this definition are still being shaped, as the first requests for TPCBM proceedings were just filed this past September.

All covered business method patents can be subject to TPCBM review, regardless of when they were filed. Patents filed under first-to-invent provisions, however, may only be challenged with either (1) prior art that qualifies as such under the current § 102(a), or (2) prior art that discloses the invention more than one year before the patent’s application, and which would have been prior art under § 102(a) as of the patent’s invention date.

TPCBMs reviews generally proceed under the same standards and procedures of a post-grant review. Similar to post-grant reviews, petitioners may challenge covered business method patents on §§ 101, 102, 103 or 112 grounds. However, a petitioner cannot initiate a TPCBM proceeding on a patent during the time a post-grant review could be filed (*i.e.*, nine months after the patent issues). Between September 16, 2012 — when *inter partes* review first became available — and November 1, 2012, third parties have requested 41 *inter partes* reviews. Together, with post-grant and TPCBM reviews, these proceedings provide new and potentially more cost-effective means to challenge the validity of issued patents. Patentees need to be aware of the additional challenges to maintaining validity, and be prepared to defend against assertions of invalidity that may arise shortly after a patent issues. All companies should be vigilant in monitoring the patenting activities of competitors in their industry and understand the increased options available for challenging validity. Time-sensitive procedures, such as the *inter partes* review, require parties accused of infringement to move promptly once a complaint has been served. The shift to litigation-like proceedings before the Board requires counsel both familiar with intellectual property law and trial-ready and

experienced in managing discovery, motions practice and oral arguments.

### *SAP America, Inc. v. Versata Development Group, Inc.*

On January 9, 2013, the Board issued its first decision relating to TPCBMs under the AIA — *SAP America, Inc. v. Versata Development Group, Inc.*<sup>1</sup> The decision includes several notable takeaways. First, the Board construed “sued” to encompass litigation at any stage of the proceeding up to final judgment on appeal. Because SAP had lost on validity at trial, Versata argued that issue preclusion and claim preclusion estopped SAP from filing a petition and that the statute requires “ongoing litigation.” The Board rejected these arguments finding that the district court decision was not final because appeals were still pending and the plain language of the statute merely required that the party has been “sued for infringement.”

Second, the Board confirmed that the definition of covered business method patents would be construed broadly. The Board found that covered business method patents “encompass patents claiming activities that are financial in nature, incidental to a financial activity or complementary to a financial activity.” Further, the Board found that the definition of financial product or service should not “be limited to the products or services of the financial services industry.”

Third, the Board used the “machine” prong of the machine or transformation test to determine that the challenged claims did not qualify as “technological inventions.” Even though the claims required the use of a computer or software, the Board found that the claims lacked a technological feature because “no specific, unconventional software, computer equipment, tools or processing capabilities are required.” Accordingly, the challenged claims did not fall under the “technological inventions” exclusion from the definition of covered business method patents. ■

#### Endnote

<sup>1</sup> *SAP America, Inc. v. Versata Development Group, Inc.*, Case CBM2012-00001 (MPT) (PTAB Jan. 9, 2013).

## Latham Obtains Multiple § 101 Victories

By Lisa K. Nguyen

Business method patents played a prominent role in the development of the AIA, ultimately receiving their own post-grant proceeding. Given their broad application in all fields, non-practicing entities often use business method patents as a tool in their business model. Consequently, as attorneys have sought out different ways of challenging business method patents, focus has fallen on subject matter eligibility.

On June 28, 2010, the Supreme Court in *Bilski v. Kappos*, 130 S. Ct. 3218 (2010) held that business methods may constitute patentable subject matter under 35 U.S.C. § 101. In doing so, the Court failed to provide clear guidance as to how to determine business method patentability, resulting in conflicting decisions in the Federal Circuit and among district courts.

On March 20, 2012, the Supreme Court in *Mayo Collaborative Services v. Prometheus Laboratories, Inc.*, 132 S. Ct. 1289 (2012) attempted to resolve that conflict, reemphasizing that § 101 plays an important screening function and that simply implementing a natural law or naturally occurring relationship in a well-known or obvious method is insufficient to make the idea patentable.

However, soon after the *Mayo* decision came out, the Federal Circuit issued two seemingly inconsistent decisions — *Bancorp Servs., L.L.C. v. Sun Life Assurance Co. of Canada (U.S.)*, 687 F.3d 1266 (Fed. Cir. 2012) and *CLS Bank Int'l v. Alice Corp. Pty. Ltd.*, 685 F.3d 1341 (Fed. Cir. 2012). Although *CLS Bank* has now been vacated after the Federal Circuit granted rehearing en banc, the internal conflict over the application of § 101 remains more pronounced than ever.

Latham teams have been able to successfully navigate the § 101 jurisprudence, repeatedly obtaining victories in this area for their clients. Recent wins are highlighted below.

### *WildTangent, Inc. v. Ultramercial, LLC*, 132 S. Ct. 2431 (2012)

Latham represents WildTangent, Inc., an online games service provider, in a patent infringement case before the Central District of California, the Federal Circuit and the Supreme Court. In August 2010, the Central District of California found the Ultramercial patent asserted against WildTangent invalid for failure to claim patentable subject matter. This victory was the first to dismiss an action under the Supreme Court's decision in *Bilski*. Although the Federal Circuit reversed the dismissal, Latham successfully petitioned the Supreme Court to vacate the decision and remand the case to the Federal Circuit for further consideration in light of the Supreme Court's decision in *Mayo*. The case is currently pending before the Federal Circuit.

### *OIP Technologies, Inc. v. Amazon.com, Inc.*, No. C-12-1233 EMC (C.D. Cal. Sep. 11, 2012)

Latham represented Amazon.com, Inc. against non-practicing entity OIP Technologies, Inc. in a patent infringement case pending before the Northern District of California. The alleged invention of the asserted patent involved automated testing and selection of prices for goods and services sold online, and was originally marketed as the Optivo Pricing Solution which was released as a product in 2001. Latham distinguished the asserted patent from that in *CLS Bank* (which was still in force at the time), and successfully argued that the asserted patent covered ineligible subject matter under § 101. The Court invalidated the patent and granted Latham's motion to dismiss.

### Freddie Mac Litigations

Latham represented the Federal Home Loan Mortgage Corporation (Freddie Mac) against Graff/Ross Holdings LLP in multiple patent infringement actions pending before the District

of Columbia. In May 2007, Graff/Ross filed a complaint against Freddie Mac, asserting infringement of its patent related to bond auctions of fixed income instruments. Freddie Mac subsequently filed two declaratory judgment actions, each involving a newly issued patent related to the patent asserted in the original suit.

In the original action, Freddie Mac moved to dismiss on the basis that, among other things, the asserted patent claims were invalid under 35 U.S.C. § 101 for failure to recite patent-eligible subject matter. The district court referred the case to a magistrate, after which the case was stayed pending a decision from the Supreme Court in *Bilski*. The magistrate lifted the stay in July 2010, received supplemental briefing, held oral arguments and recommended granting Freddie Mac's motion. Graff/Ross objected and the parties filed eleven Notices of Supplemental

Authority. In September 2012, more than two years later, the district court issued an order adopting the magistrate's recommendation, converting Freddie Mac's motion to dismiss into a motion for summary judgment, granting Freddie Mac's motion, and dismissing the action in its entirety with prejudice.

In the declaratory judgment actions, Freddie Mac moved for summary judgment of invalidity under § 101. This required Latham had to overcome the organizational challenge of addressing a total of 614 claims between the two patents. The firm confronted this problem by first categorizing the claims into nine groups, then demonstrating why a representative claim from Group One was invalid and why claims in the remaining groups were necessarily invalid as well. In September 2012, the court granted Freddie Mac's motion, holding all 614 claims invalid under § 101. ■



**Save the Date**

## Intellectual Property Roundtable

*The New PTO Post Grant Review Procedures –  
Are They a Game Changer?*

**May 14 | San Diego**

**May 14 | Orange County**

**May 15 | Los Angeles**

**May 16 | Silicon Valley**

Join us for a lively roundtable discussion on what you need to know about these new procedures and what they can do for you. Hear from our registered patent attorneys who also litigate patent cases.

They will discuss:

- When can these procedures be used?
- Who has standing?
- Who can use it?

These programs will be held in Latham's offices (unless otherwise noted) and are complimentary for invited guests. Parking and continental breakfast or lunch will also be provided.

### Registration

Click [here](#) to register. For questions concerning this program, please contact [Jessica Arevalo](#) at +1.213.891.7696.

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