
INTELLECTUAL PROPERTY

THE COSTS OF PATENT REFORM: EARLY DATA AND ABUSES IN THE UNEVEN PLAYING FIELD OF POST-ISSUANCE REVIEW

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INTRODUCTION

Mark Twain once wrote “that a country without a patent office and good patent laws was just a crab, and couldn’t travel any way but sideways or backways.”¹ This attitude was shared by our country’s founders and generations since, and it is not surprising that throughout our history Congress has tried various approaches to improve our patent laws. In recent years there has been much discussion about patent quality, and the 2011 Leahy-Smith America Invents Act (“AIA”) included several provisions ostensibly geared toward improving patent quality.²

With the AIA, Congress attempted to improve patent quality by increasing the opportunities for the United States Patent & Trademark Office (PTO) to reevaluate its own patent grants. Specifically, Congress created new administrative post-issuance review programs at the PTO that could be used to invalidate previously-granted patents. Unfortunately, in establishing these new programs, Congress focused almost exclusively on the purported quality benefits of the “second look” to weed out “bad” patents, but failed to fully appreciate the costs of these new programs. Making matters worse, what Congress created was not just a “second look” but also a “third,” “fourth,” “fifth,” etc., look. As we increase the number of chances to invalidate potentially improperly-granted patents, we also increase the

corresponding danger of invalidating legitimate patents and create costly uncertainty.³ The AIA was supposed to give the PTO a “toolbox” of new proceedings to weed out “low quality patents,” but in doing so, it impaired the rights of legitimate patent holders by substantially increasing the costs of defending properly-issued patents, and by creating opportunities for abuse.

At the outset, it is worth noting that today’s clamor over “low quality patents” is by no means a new complaint. Indeed, allegations that the Patent Office issues “useless patents” that result in “onerous litigation” have been with us for over 200 years.⁴ And while it is true that the PTO can make mistakes or be defrauded by unscrupulous applicants, there is no evidence that “low quality” patents are overly-prevalent today or that they cause any significant economic problems.⁵ Indeed, there is not even a settled definition of what constitutes a “low quality” patent (as opposed to “high” or “medium quality” one).⁶ To be sure, there are plenty of anecdotes and popular press stories about silly patents, such as patents claiming a “Method for Exercising a Cat” or a “Method for Swinging on a Swing.” What is absent is any reliable empirical evidence that low quality patents actually present a significant problem in our patent system.

All of this means that when Congress created the AIA’s post-issuance review mechanisms to solve the “problem” of “low quality patents,” it was far from clear that there was actually a problem in need of solving. Even assuming that there was a problem, and that it was serious enough to warrant a legislative solution, the solution offered ended up imposing costs on legitimate patent holders that appear way out of proportion to the alleged problem of bad patents. Moreover, the AIA’s post-issuance review mechanisms have significantly amplified

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opportunities for patent challengers to abuse the system to the detriment of legitimate patent holders. To understand why, it helps to first look at the arsenal of weapons that are available to invalidate a patent.

I. AVENUES FOR PATENT INVALIDATION

a. *Ex Parte* Reexamination

Historically, when the government issued a patent, the patent had a presumption of validity and only a court could invalidate it.⁷ In 1981, after decades of debating the issue, Congress created a new system that allowed patents to be invalidated in administrative proceedings—the *ex parte* reexamination process (“reexamination”).⁸ Congress’ primary goals in creating the reexamination process were (1) providing more certainty about patent validity, and (2) creating a cheaper substitute for litigation.⁹

In many ways, the reexamination process resembles the procedure used to obtain a patent in the first place. Once the PTO orders the patent into reexamination, the process proceeds *ex parte* and the patent holder is put in the same position as a patent applicant, which includes the ability to amend the claims.¹⁰ The only major difference between reexamination and the original process for obtaining a patent is the limits placed on reexamination. Whereas an initial patent application can be rejected for failure to comply with any of the Patent Act’s requirements, reexamination can only address questions of novelty and obviousness (Sections 102 and 103 of the Patent Act, respectively).¹¹ This limitation has generated significant criticism over the years. As soon as reexamination was created, a leading patent practitioner argued that “reexamination will come up short, and actually fail to perform its intended function of ‘improv[ing] the reliability of reexamined patents.’”¹² Importantly, because of its limited nature, reexamination is not a full substitute for litigation. At the same time, the reexamination procedure can be, and frequently is, used to impose significant costs and delays on patent holders.¹³

The reexamination process begins with a patent challenger submitting a petition to the PTO that outlines why the patent in question is invalid in light of prior patents or publications (the “prior art”). The PTO then evaluates the petition and grants reexamination if there appears to exist a “substantial new question of patentability” with respect to any of the patent claims identified in the petition. While on the surface, the “substantial new question of patentability” seems like a significant bar, in reality it is not. The PTO grants more than 90% of all reexamination petitions.¹⁴

Once a reexamination petition is granted, the process is conducted without participation by the third-party requester. That means that the cost to the requester of the examination is simply the fee for the request plus the cost of the prior art search and the opinion letter explaining why the claims are invalid in view of the discovered prior art.¹⁵ The cost to the patent holder, on the other hand, is much more significant. Not only will the patent holder have to respond to the initial reexamination filing, he will also have to spend significant resources to essentially re-prosecute the claims in the Patent Office.¹⁶

Furthermore, even if the patent holder successfully defends against a reexamination challenge, that does not insulate

him from subsequent challenges. Indeed, some attorneys have advised their clients to withhold a handful of prior art references during the initial reexamination request so that they can request additional reexaminations (at substantial cost to the patent holder) should the first proceeding be resolved in the patent holder’s favor.¹⁷ The marginal cost to the challenger for these piecemeal submissions is minimal (beyond another reexamination request fee), but the cost to the patent holder is roughly the same for each individual proceeding. This reexamination “stacking” allows challengers to keep patents in limbo for indefinite periods of time. And while a patent in the midst of a reexamination does remain enforceable, in practice most judges will stay litigation while reexamination is pending. All of these factors result in reexamination being an *adjunct* rather than an *alternative* to litigation.¹⁸

The upshot is that reexamination failed to achieve Congress’s goals. Because of its limited nature, it failed to provide a substitute to litigation. As a result, it *increased*, rather than decreased the costs and duration of disputes,¹⁹ in direct contradiction of Congress’ intent in creating the system. It also failed to provide more certainty about the validity of issued patents. Surviving reexamination does not insulate a patent holder against litigation, nor does winning a judgment of validity in litigation insulate against reexamination.²⁰ Indeed, on average, a patent that is subject to reexamination is reexamined twice, with some being reexamined as often as four, five, or even six times.²¹ All of these shortcomings stemmed from the following flaws in the patent reexamination system: 1) the lack of a meaningful threshold to initiate the process; 2) the lack of estoppel provisions either in civil suits or in subsequent proceedings at the PTO; which in turn results in 3) the lack of certainty about the validity of the patent following reexamination; 4) disproportionate costs on the patent holders; and 5) excessive length of the process itself.

b. *The AIA’s New Administrative Review Procedures*

Congress sought to address each of these shortcomings in the new administrative review procedures it created under the AIA. The AIA was supposed to give the Patent Office a “toolbox” of new proceedings to “weed out low quality patents . . . includ[ing] post-grant review, *inter partes* review, supplemental examination, and derivation proceedings, as well as a transitional post-grant review program for certain business methods patents.”²² Each of these procedures provided new avenues for patent challengers to attack issued patents, and did so without closing the option of an *ex parte* reexamination. As of 2014, the two most used proceedings are the *inter partes* review (“IPR”) and the covered business method review (“CBMR”) program. The new post-grant review (“PGR”) program is only applicable to patents with a filing date of March 16, 2013 or later.²³ Given that very few patents filed on or after that date have issued already, PGR is not yet prevalent. Nonetheless, as more and more patents filed after that date are issued, all of the criticisms identified below may well be applicable to the PGR procedure as well.

Both IPR and CBMR sought to address the complaints about reexamination while creating low-cost alternatives to litigation.²⁴ To that end, both mechanisms created estoppel

provisions and deadlines for resolving disputes.²⁵ Unfortunately, the estoppel provisions are proving to be easily avoidable, and the new review mechanisms are exacerbating rather than solving pre-existing problems.

i. Inter Partes Review (IPR)

Inter partes review can be filed by any person (other than the patent holder) and can be used to challenge any claim of an issued patent.²⁶ IPR cannot be requested if the petitioner has previously filed a suit in federal court challenging the validity of the patent, but it is permissible to file an IPR request first and then subsequently file suit in federal court.²⁷ While an IPR is pending, the federal court action is automatically stayed unless the patent holder either waives a stay or brings his own infringement counterclaims.²⁸ After a challenger requests an IPR, the patent holder has a right to file a preliminary response to explain why the IPR petition ought to be rejected, and the Patent Office then must decide whether to grant the petition, which it may only do if the petition “demonstrate[s] that it is more likely than not that at least one of the claims challenged in the petition is unpatentable.”²⁹ No appeal (save for a motion for reconsideration) lies from the decision to either grant or deny the petition. If a petition is *denied*, however, a new one can be filed by the same (or different challenger) at any time during the patent’s enforceability period.³⁰ If the Patent Office grants the petition and institutes an IPR proceeding, the matter goes to trial before the Patent Trials and Appeals Board (“PTAB” or the “Board”), which must render its final decision within twelve months of the decision to institute the proceedings.³¹

It is worth noting that the seemingly quick turnaround time required by statute is actually not that quick. Taking into account the time for filing an IPR request, the time allowed for opposition, and the time the PTO has to decide whether to grant the petition, the total time that a patent can spend in limbo waiting for resolution of an IPR proceeding is up to 27 months (or 33 months if the deadline for rendering the decision is extended). The 27-33 month timeframe is roughly equivalent to a district court litigation timeframe. Thus, though IPR may be cheaper and more streamlined, it is not necessarily faster, especially if one considers the time spent in additional litigation resolving issues of infringement and invalidity that were not addressed in the IPR process.

From the challenger’s perspective, the key difference between trials at the PTAB and trials in district court is the compressed schedule and lower burden of proof. Whereas district court proceedings require “clear and convincing evidence” to invalidate a patent,³² PTAB proceedings apply a “preponderance of evidence” standard.³³ Much like *ex parte* reexamination, the potential bases for invalidity in IPR proceedings are limited to lack of novelty under Section 102 and obviousness under Section 103 of the Patent Act.³⁴

IPR proceedings have estoppel consequences. A petitioner who requests an IPR is estopped from subsequently asserting claims and theories which the PTAB rejects. The estoppel applies both to federal court litigation and future administrative proceedings (such as other PTO review proceedings), and includes issues that “reasonably could have been raised” before the Board. The parties covered by the estoppel include

not only the petitioner, but also the real party in interest (that must be identified in every petition) and anyone in privity with the petitioner.³⁵ Importantly, other third parties are not estopped from challenging the same claims on the same theories that have already been addressed before the PTAB, either through additional PTAB proceedings or in litigation. Nor is the initial petitioner estopped from seeking additional rounds of administrative review or litigation with respect to *different* claims in the patent.

ii. Covered Business Method Review (CBMR)

CBMR is in many respects similar to IPR, but it applies to a narrower range of patents and allows for consideration of a broader set of issues. Unlike IPR, CBMR validity challenges can be based on any section of the Patent Act, not just Sections 102 and 103.³⁶ CBMR grew out of lawmakers’ frustration with “business method” patents, in particular patents that covered the method for electronically processing and clearing personal checks. It is noteworthy that although proponents of CBMR have claimed that business method patents are “anathema to the protection the patent system provides” and that they only exist to target innocent companies in frivolous lawsuits, the patents that initially animated the push for the CBMR provision have been repeatedly upheld in litigation and reexamination.³⁷ Despite this record, Congress decided to subject “business method” patents to a more scrutinizing post-issuance review.

Given the difficulty in defining with any level of precision what constitutes a “business method” (a problem that the Supreme Court recognized in *Bilski v. Kappos*), Congress settled for a seemingly narrow definition of patents eligible for CBMR. Under the statute, challengers can use CBMR against patents that “claim[] 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.”³⁸ Unfortunately, “financial services” is left undefined. The PTO has stated that it will interpret this section broadly to “activities that are financial in nature, incidental to a financial activity or complementary to a financial activity.”³⁹ Likewise, the AIA does not define “technological innovations.” For this term, the PTO has concluded that it will proceed on a “case by case basis” and consider “whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and solves a technical problem using a technical solution.”⁴⁰ This tautological definition has resulted in further litigation over the PTO’s authority to order certain patents into CBMR and has cast a cloud of uncertainty over a broad range of patents.

Procedurally, CBMR is similar to IPR, with some important exceptions. First, unlike IPR, where any person can challenge a patent claim, CBMR challengers must satisfy standing requirements identical to those that would be applicable in federal court. Second, although CBMR does have estoppel provisions, they are much less far-reaching. Most importantly, estoppel does not attach to arguments that “could have been raised” in CBMR proceedings; rather it only attaches to arguments actually raised.⁴¹

The creation of these new procedures (along with PGR)

did not disturb the existing ex parte reexamination. Thus, reexamination co-exists with the new AIA procedures. What is worse is that the AIA estoppel provisions are a one-way street. They apply to reexaminations that have been instituted after a decision has been rendered in an IPR or CBMR, but they do not apply in reverse. A challenger can thus request a reexamination and then an IPR or CBMR without fear of estoppel. Indeed, challengers can request multiple reexaminations and then follow them up with an IPR or CBMR. In that way, a determined challenger can keep a patent, and consequently the patent holder's ability to enforce or license it, in perpetual limbo.

II. EARLY DATA

As of November 20, 2014, just over 2,000 petitions for IPR have been filed. The Patent Office has preliminarily evaluated just over half of the filed petitions to decide whether or not to institute a trial. Of the ones that were preliminarily evaluated, 78% were ordered into trial.⁴² The PTAB has issued 135 final determinations in 166 cases covering just under 2,000 separate patent claims. (Some cases were joined for a single decision, which is why there are fewer decisions than cases). One hundred and three of the cases considered (77% of adjudications) resulted in *every* challenged claim being cancelled.⁴³ An additional 10.5% of cases resulted in *some* claims being cancelled. Only 12% of the cases resulted in all of the challenged claims being upheld.

Another way of looking at the data is to consider the percentage of challenged claims that have been invalidated by the PTAB. Out of a total of 1,962 claims before the Board, 1,572 or 81% were found to be invalid. This is a staggering rate, especially considering that the *only* issues the Board is allowed to consider are novelty and obviousness. By comparison, in district court litigation, claims are invalidated for obviousness or lack of novelty about one third of the time, (i.e., at less than half the PTAB rate).⁴⁴ Similarly, academic studies suggest that when properly examined, only about 30% of issued patents are actually invalid for reasons of obviousness or lack of novelty.⁴⁵ That the PTAB invalidates patents at more than double these rates may indicate that it is giving short shrift to the vested patent rights of inventors.

The CBMR data is even less encouraging for patent holders. Admittedly, the data is significantly more sparse, because only a small subset of patents are eligible for CBMR. Nonetheless, the trends are fairly evident. As of November 2014, the PTO received 255 CBMR petitions, and processed 149 of them to determine whether to institute a full-blown trial. The Board chose to institute trial in 76% of all cases it considered. Of the cases that have gone to trial, the Board issued a final decision in 17 cases covering over 339 claims.⁴⁶ In *no case* did the Board uphold all challenged claims, and in only two cases did the PTAB find any of the challenged claims to be valid. The total claim invalidation rate in CBMR tops 96%.

Making matters worse still is the fact that IPR and CBMR are often not the first "bite at the apple" for patent challengers. A number of the AIA challenges were brought against patents that had been re-affirmed in previous litigation or ex parte reexamination proceedings. Despite the patent holders' repeated success in confirming their patent rights, the Board

invalidated those patents at the same rate as every other patent that came before it. Nor is the PTAB solicitous of motions to amend claims. Indeed, the PTAB denied *every* contested motion to amend claims that were subject to an IPR or CBMR. Considering the data as a whole, it is not a surprise that former Chief Judge Rader of the U.S. Court of Appeals for the Federal Circuit recently remarked that the new administrative post-issuance review procedures are "acting as death squads, killing property rights."⁴⁷

III. ABUSES IN THE SYSTEM

The ex parte reexamination system and the new AIA post-issuance review proceedings are rife with opportunities for abuse against patent holders. In enacting the AIA, instead of fixing existing problems of abuse against patent holders, Congress actually increased the opportunities for challengers to abuse the system. While the statistics above tell part of the story, a few specific examples of abuse are illustrative. The stories of abuse are necessarily anecdotal, but they shed light on the weaknesses in the system overall and suggest avenues to ameliorate the problems created by the AIA.

a. Rent-Seeking

Some patent challengers have used the system as a pure rent-seeking mechanism. Recognizing the high likelihood that a petition for review will be successful (both at the initial grant stage and at the merits stages), these challengers use the threat of filing a petition for review as a way to make patent holders pay them large sums of money in exchange for not filing the petition.

A clear case of such behavior involved four patents owned by VirnetX. After VirnetX won a substantial infringement suit against Apple⁴⁸ (and while an appeal was pending at the Federal Circuit), an unrelated entity called New Bay Capital, LLC filed an IPR request against the patents VirnetX had asserted against Apple.⁴⁹ Prior to filing the IPR request, however, New Bay made an offer to VirnetX – for 10% of VirnetX's jury verdict against Apple, it was willing to forego filing the IPR petition. Neither New Bay nor its parent company were ever involved in any litigation with VirnetX, nor was New Bay ever threatened with any patent enforcement actions by VirnetX. Yet, because of the lack of any standing requirement to file an IPR petition, New Bay was able to engage the PTO's machinery in its quest to extort money from VirnetX. Although VirnetX refused New Bay's demand for a payoff, it paid a high price when New Bay carried through on its threat. Within a week of the IPR petition being filed, VirnetX's stock price fell by 25%, a \$250 million loss in market capitalization.⁵⁰

Whatever the reason for New Bay's payoff demand and subsequent IPR request, it illustrates that the system can be used to destroy not just the value of a patent, but the value of a patent holder's entire enterprise. Furthermore, this damage can be accomplished at the low cost of an IPR filing. Because the cost of filing an IPR request to the patent challenger is modest, the threat of going through with it is almost always credible.⁵¹ Given the potentially high costs imposed on the patent holder, the patent holder is in a lose-lose situation—either submit to the challenger's demands, or risk suffering losses on the market. The

challenger, on the other hand, is in a win-win situation. It need not even prosecute the challenge to completion (indeed, New Bay abandoned its challenge before the PTAB even decided whether to institute an IPR, and it is likely that it profited from taking a short position on VirnetX's stock).⁵²

Machinations like these defeat the purposes of having post-issuance review proceedings in the first place. Abandoned challenges do not weed out "low quality" patents, nor do they provide certainty about the validity of "high quality" patents, and given that nothing is resolved in the process, it is impossible to talk about increased speed or decreased cost for dispute resolution. Unfortunately, the setup of the AIA's post-issuance proceedings almost ensures that more "New Bays" will come about. The opportunity to make money by shorting the market or by extracting rents from patent holders is simply too great to pass up. And because it is the most valuable patents that are preferentially subject to such requests, it is the value of the truly innovative companies that will likely suffer at the hands of this rent-seeking behavior.

b. Evasion of Estoppel and Time Bars

The AIA ostensibly sought to rein in seriatim requests for post-issuance review by patent challengers by requiring that request be brought within one year of the challenger being sued for infringement and by forbidding relitigation of issues that were or could have been raised in the first PTO proceeding that resulted in a final judgment.⁵³ As it turns out, however, these bars can be evaded with relative ease.

The most prominent case of attempts to evade such strictures also stems from the VirnetX's patents. While New Bay's IPR petitions were pending, Apple—the losing party in District Court litigation—filed its own IPR petition. As it happens, however, Apple's petition was not timely because VirnetX sued Apple more than one year prior to Apple's IPR request. The PTAB dismissed it, and that should have been the end of the story. But it was not.

As soon as New Bay's IPR petitions were withdrawn, seven additional IPR requests were filed by RPX Corporation.⁵⁴ RPX "is the leading provider of patent risk solutions, offering defensive buying, acquisition syndication, patent intelligence, insurance services, and advisory services."⁵⁵ It is a membership-based organization that provides the aforementioned services to its members. One of the services it provides is participation in post-issuance review in an attempt to invalidate patents. Although such attempts are clearly meant to benefit RPX's member-clients, ostensibly, RPX files petitions in its own name. By using this approach, RPX attempted to evade the time bars applicable to one of its clients—Apple.

In its petition for IPR of VirnetX's patents, RPX asserted that it was the real party in interest and was therefore not bound by any time bars or estoppel provisions that may be applicable against Apple.⁵⁶ After receiving half a million dollars from Apple and engaging the same law firm Apple used to defend itself against VirnetX's infringement claims, RPX decided, supposedly in the exercise of its "sole discretion," that VirnetX's patents were "of questionable validity" and should be challenged before the PTO.⁵⁷ The PTAB eventually held that on the very specific facts of RPX's petition, the real party in interest was Apple.

However, that holding was predicated on a particularly strong intertwining of Apple's work and needs with RPX's actions. It is not clear from the Board's opinion that the mere fact of Apple's membership in RPX would have been sufficient to bind RPX with Apple's deadlines.⁵⁸ And if so, that raises opportunities for multiple rounds of reviews initiated not just by RPX itself, but by any of its members. In other words, the mere fact that RPX's member-client may benefit from RPX's decision to seek post-issuance review will likely be insufficient to conclude that such a member-client is the true "real party in interest."

RPX's actions, however, are not limited to evading estoppel and time bars to post-issuance proceedings. They also serve to enable each of their members (who happen not to be subject to any bars) to share costs and information on the potential lines of attack against a patent. That information can then be deployed piecemeal against a patent holder, keeping the patent under a constant and continuous IPR threat. A company like RPX can pool the resources of its members in order to compile a dossier on a patent that the members wish to invalidate. Then that dossier can be made available to all members who can proceed in piecemeal fashion against a patent holder. That is precisely what happened to at least some of VirnetX's patents, and it is likely that such a system will flourish going forward.

c. Seriatim Attempts at Invalidation

Patents that are subject to a post-issuance review request often face more than one such request. When these requests are filed simultaneously, the burden on the patent holder is somewhat alleviated because the PTAB tends to consolidate multiple pending requests into a single adjudicatory proceeding (although even in these circumstances, the challenger is in a better position because it can stagger its filings in such a way as to keep the patent holder's attorneys busy drafting responses to numerous post-issuance review petitions). The larger problem occurs when, after having failed in one post-issuance review proceeding, the challenger is able to trigger yet another one. One way to do that is to ask for an *ex parte* reexamination first, followed by the AIA-created procedures. Another way is to seek IPR first, followed by CBMR. This approach is not precluded by the estoppel provisions because certain lines of attack that are available in CBMR are not available in IPR, meaning that they are not issues that "could have been raised" in the previous proceeding. Yet another tactic is to challenge different *claims* in separate IPR or CBMR proceedings. This too does not trigger any estoppel provisions, because the estoppel provisions are applied on a *per claim* rather than per patent basis.

A good example of this behavior involved a patent owned by Zillow, an online real estate database directed to property valuation. In October 2012, Microstrategy, Inc., a business that has little apparent connection with real estate, filed an IPR request with respect to all 40 claims in Zillow's patent.⁵⁹ The Board granted the request in part, instituting review with respect to 29 out of the 40 claims.⁶⁰ In March 2014, the Board cancelled 25 of the 29 claims and upheld the remaining four. Zillow retained 19 total claims following the conclusion of the IPR.⁶¹ That should have allowed Zillow to breathe at least a partial sigh of relief. Instead, almost immediately following this partial victory, Zillow was dragged back before the PTO

by Trulia—a competitor in the online real estate valuation market. In April 2014, a mere two weeks after Zillow managed to retain 19 out of 40 claims challenged by Microstrategy, Trulia filed a CBMR petition asking for a review of 15 of the claims in Zillow’s patent. Furthermore, nine of the identified claims were ones that the PTAB declined to even institute a trial on in the previous IPR proceedings.⁶²

Despite having prevailed previously on the issue (albeit against a different petitioner), Zillow had to defend its right to the claims at issue all over again. The PTAB promptly instituted trial on all but one of the challenged claims.⁶³ Zillow’s patent has thus been under a consistent cloud since October 2012, (nearly two years as of this writing), and will spend additional time in limbo until the Board issues its final decision on Trulia’s CBMR petitions. Of course, these petitions could be followed with yet other ones challenging any remaining claims. In that way, Zillow’s patent could be kept in limbo for significantly longer than it would take to resolve district court litigation.

Unfortunately, Zillow is not the only victim of such tactics.⁶⁴ Furthermore, even though patents in the midst of IPR or CBMR continue to be enforceable, judges may stay any infringement actions while IPR or CBMR proceedings are ongoing.⁶⁵ As a result, while PTO review and any appeals therefrom are ongoing, patent holders may be de facto barred from actually enforcing their patents. In this environment, challengers have every incentive to “stack” their IPR and CBMR petitions so as to make life harder for patent owners and potentially deprive them of their ability to fully and consistently enforce their patent rights. Given the structure of the IPR and CBMR review processes, there is little to nothing that patent holders can do to prevent such abuse.

d. Retaliation and Leverage

Post-issuance review proceedings can also be used to settle scores with patent owners or to strong-arm companies into more favorable licensing deals. The Zillow patent discussed in the preceding subsection is an example of such “score-settling.” Recall that Microstrategy, the first challenger to the Zillow patent, was a company with no relationship to Zillow or the technology protected by its patent. Nor was the challenger an RPX-type company that has patent invalidation as one of its stated goals. As it turns out, Microstrategy was involved in another, entirely unrelated patent litigation against an unrelated third party on an unrelated patent. The only thing that connected that litigation to Zillow was the fact that Zillow’s attorneys (the large law firm Susman Godfrey) also happened to represent Microstrategy’s opponents—Vasudevan Software, Inc, also known as VSi. During the course of negotiations between VSi and Microstrategy, Microstrategy threatened that unless VSi dropped their infringement lawsuit, not only would they seek PTO review of all of VSi’s patents, they would also retaliate against Susman Godfrey by going after their other clients. When VSi’s lawsuit was not dropped, Microstrategy followed through on its threat and filed an IPR petition against Zillow.⁶⁶ This behavior exemplifies how the system can be used for improper purposes and as a tool to browbeat patent owners, even ones who have nothing to do with whatever has raised the petitioner’s ire.

Another egregious example is the case of ImmunoGen, a

company that works “to develop innovative, effective anticancer therapies that meaningfully improve the lives of patients with cancer.”⁶⁷ Several patents on antibodies that are useful in cancer therapies resulted from ImmunoGen’s work and were licensed to Genentech (a large biotechnology company), which in turn practiced the patents. The relationship between ImmunoGen and Genentech was quite productive. Separately, Genentech was sued by Phigenix, Inc., a company that holds a patent on a method of treating certain type of breast cancer. In its suit, Phigenix claimed that the sale and use of the drug marketed by Genentech (and covered by ImmunoGen’s patent) infringed its method patents.⁶⁸ However, in addition to suing Genentech, Phigenix also filed an IPR request against ImmunoGen’s patents.⁶⁹ ImmunoGen does not appear to have ever asserted its patents against Phigenix. This makes sense, as Phigenix does not manufacture any pharmaceutical products, and therefore invalidating ImmunoGen’s patents in and of itself would not benefit Phigenix. Instead, by threatening ImmunoGen’s assets, it looks like Phigenix was simply hoping to obtain more favorable licensing terms in its unrelated negotiation with Genentech.

These examples illustrate how the post-issuance review system can be used as a tool for retaliation and leverage. When such abuse occurs, instead of reducing litigation and associated costs, the system actually increases costs by allowing companies like ImmunoGen to be dragged into the fray by companies like Phigenix (who have no actual complaint against them and who would be unable to file suit against them in district court). This behavior also imposes additional costs on the public. Instead of spending its time, money, and other resources developing “innovative, effective anticancer therapies that meaningfully improve the lives of patients,” ImmunoGen was forced to spend time defending its patents before the PTAB. (The PTAB has now instituted trial, thus creating litigation costs where none would have existed in the absence of the IPR process).⁷⁰ It would be one thing if such costs were offset by the possibility that invalidation would lead the challenger to enter the market with a competing, cheaper product, but Phigenix doesn’t compete with ImmunoGen and had no intentions of developing an alternative to ImmunoGen’s patented antibodies. Thus, win or lose at the PTO, society will be left with an innovative company that will have less money to dedicate to further research and development of cancer treatment. It is hard to fathom that that is what was intended by the patent “reformers.”

IV. LESSONS TO BE DRAWN

Almost immediately after the AIA was signed into law, we started hearing calls for an additional round of patent reform. President Obama announced his support for patent reform in the 2014 State of the Union Address, and the House of Representatives passed a reform bill by an overwhelming margin.⁷¹ The stated purpose of this next round of reform is to make it harder to enforce patents, which will supposedly strengthen the patent system by reducing frivolous litigation.⁷² But while the stated goal is laudable, the proposed reforms are deeply flawed.

As discussed above, the latest round of patent reform (the AIA) has already tilted the playing field significantly against patent holders by permitting patent challengers multiple and sequential avenues at patent invalidation, often under very

permissive standards. Additionally, in the interim we have seen several Supreme Court decisions, PTO guidelines and initiatives, as well as actions by the Judicial Conference and the FTC, all of which tilt the playing field even further against patent holders. Piling on legislative intervention at this point would further unbalance the patent system and provide added avenues for abusive practices by infringers.

The broad lessons to be drawn here are that no reform is cost-free, and that while the benefits of certain reform measures may be real, they should be weighed against the true costs of those reforms. The early data on the AIA shows that the current system of post-issuance review is susceptible to abuse in ways that Congress did not anticipate. Creating additional and ever-more expansive mechanisms to eradicate supposedly “low quality” patents is a dubious approach because it may end up imposing unnecessary and exceedingly high costs on legitimate patents and patent holders. It is a lesson that Congress would be well-advised to heed as it proceeds to debate yet another round of patent reform.

Endnotes

- 1 Mark Twain, *A Connecticut Yankee in King Arthur's Court* 107 (1st ed. 1889).
- 2 Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified in scattered sections of 28 and 35 U.S.C.).
- 3 See generally Timothy G. Pepper, *Beyond Inherent Powers: A Constitutional Basis for in Re Tutu Wells Contamination Litigation*, 59 OHIO ST. L.J. 1777 (1998) (noting that an increase in pretrial procedures has led to delay and abuses); Judith Resnik, *Precluding Appeals*, 70 CORNELL L. REV. 603, 613 (1985) (“The potential for misuse of procedure exists at all times and in all procedural models.”).
- 4 See Edward C. Walterscheid, *Patents and Manufacturing in the Early Republic*, 80 J. PAT. & TRADEMARK OFF. SOC'Y 855, 888 (1998) (quoting Letter, William Thornton to Amos Eaton, May 5, 1809); Edward C. Walterscheid, *The Winged Gudgeon - an Early Patent Controversy*, 79 J. PAT. & TRADEMARK OFF. SOC'Y 533 (1997); *Thompson v. Haight*, 23 F. Cas. 1040, 1041 (C.C.S.D.N.Y. 1826); S. Misc. Doc. No. 50, at 123 (1878) (additional argument of J.H. Raymond).
- 5 See Matthew Sag & Kurt Rohde, *Patent Reform and Differential Impact*, 8 MINN. J.L. SCI. & TECH. 1, 8 (2007) (noting that “patents such as the Tarzan Swing Method, the Beerbrella, a Method for Exercising Your Cat (with a laser pointer), the Hair Comb-Over Patent, and the Peanut Butter & Jelly Sandwich ... are silly, but they are typically of little consequence ...”); Mark A. Lemley & Carl Shapiro, *Probabilistic Patents*, 19 J. ECON. PERSP. 75, 79-83 (2005).
- 6 See Christi J. Guerrini, *Defining Patent Quality*, 82 FORDHAM L. REV. 3091 (2014).
- 7 *Microsoft Corp. v. i4i Ltd. Partnership*, 131 S.Ct. 2238 (2011); 35 U.S.C. § 282.
- 8 Act of December 12, 1980, Pub. L. No. 96-517, 94 Stat. 3015 (1980).
- 9 H.R. REP. NO. 96-1307 pt. 1 at 3-4 (1980).
- 10 35 U.S.C. § 305; MPEP § 2254 (8th ed. Rev. 8, July 2010).
- 11 35 U.S.C. § 301 (2010); 37 C.F.R. § 1.552 (2010); MPEP § 2258 (8th ed. Rev. 8, July 2010).
- 12 Kenneth R. Adamo, *Reexamination--To What Avail? An Overview*, 63 J. PAT. OFF. SOC'Y 616, 617 (1981).
- 13 See Raymond A. Mercado, *The Use and Abuse of Patent Reexamination: Sham Petitioning Before the USPTO*, 12 COLUM. SCI. & TECH. L. REV. 93 (2011).

- 14 U.S. PATENT & TRADEMARK OFF., *Ex Parte Reexamination Filing Data - September 30, 2013* at 1, available at http://www.uspto.gov/patents/stats/ex_parte_historical_stats_roll_up_EOY2013.pdf.
- 15 Nellie A. Fisher, *The Licensee's Choice: Mechanics of Successfully Challenging A Patent Under License*, 6 TEX. INTEL. PROP. L.J. 1, 46 (1997).
- 16 N. Thane Bauz, *Reanimating U.S. Patent Reexamination: Recommendations for Change Based Upon A Comparative Study of German Law*, 27 CREIGHTON L. REV. 945, 955-56 (1994); Mercado, *supra* note 12 at 133-34.
- 17 S. REP. 111-18 at 56 (2009); Robert Greene Sterne, *et al.*, *Reexamination Practice with Concurrent District Court Litigation or Section 337 USITC Investigations*, 11 SEDONA CONF. J. 1, 45 (2010).
- 18 See Randall R. Rader, *Addressing The Elephant: The Potential Effects of the Patent Cases Pilot Program and Leahy-Smith America Invents Act*, 62 AM. U. L. REV. 1105, 1109 (2013); James L. Wamsley, *A View of Proposed Amendments to Patent Reexamination Through the Eyes of A Litigator*, 36 IDEA 589 (1996).
- 19 For example, the duration of an average *ex parte* reexamination proceedings is about 26 months, .S. PATENT & TRADEMARK OFF., *Reexaminations - FY 2014* at 2, available at http://www.uspto.gov/patents/stats/Reexamination_operational_statistic_F_14_Q1.pdf, while average litigation lasts 27 months. AM. INTELLECTUAL PROP. ASS'N, *2011 Patent Litigation Study: Patent Litigation Trends as the "America Invents Act" Becomes Law* at 27-28 (reporting that average time to trial is 2.28 years (or 27.36 months), available at <http://www.aipla.org/resources2/intlip/Documents/Other-International-Events/US-Bar-JPO-Liaison-Council-2012/2011-patent-litigation-study.pdf>).
- 20 *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604, *on reh'g*, 771 F.2d 480 (Fed. Cir. 1985); Allen M. Leung, *Legal Judo: Strategic Applications of Reexamination Versus an Aggressive Adversary (Part I)*, 84 J. PAT. & TRADEMARK OFF. SOC'Y 471, 483 (2002).
- 21 Sterne, *supra* note 16 at 14-15.
- 22 Sarah Tran, *Policy Tailors and the Patent Office*, 46 U.C. DAVIS L. REV. 487, 498-99 (2012).
- 23 Pub. L. No. 112-29, § 6(f)(2)(A), 125 Stat. 284, 311(2011).
- 24 See 57 Cong. Rec. S5428 (daily ed. Sept. 8, 2011) (statement of Sen. Patrick Leahy); 157 Cong. Rec. S1363 (daily ed. Mar. 8, 2011) (statement of Sen. Patrick Leahy); 157 Cong. Rec. S1375 (Mar. 8, 2011) (statement of Sen. Kyl); 155 Cong. Rec. S2715 (March 3, 2009) (statement of Sen. Hatch).
- 25 35 U.S.C. § 316(a)(11); Pub. L. No. 112-29, § 18, 125 Stat. 283, 330.
- 26 35 U.S.C. § 311.
- 27 *Id.* § 315(a)(1).
- 28 *Id.* § 315(a)(2).
- 29 *Id.* § 314(a).
- 30 *Id.* § 314(d).
- 31 *Id.* § 316(a)(11).
- 32 See *Microsoft Corp. v. i4i Ltd. Partnership*, 131 S.Ct. 2238 (2011).
- 33 35 U.S.C. § 316(e). On the other hand, from the patent holder's perspective, the key difference, at least in theory, is the ability to amend his claims in PTAB proceedings, but not in district court. In practice, however, this opportunity is merely illusory, as the PTAB thus far has denied every contested motion to amend a patent holder's claims.
- 34 *Id.* § 311(b); 42 C.F.R. § 42.104(b)(2).
- 35 35 U.S.C. § 315(e).

- 36 Pub. L. No. 112-29, § 18, 125 Stat. 283, 330.
- 37 157 Cong. Rec. S1053 (daily ed. Mar. 1, 2011) (statement of Sen. Schumer); Both of the patents that gave rise to this provision were subject to reexamination and litigation. See U.S. Patent No. 6,032,137 (issued Feb. 29, 2000), *reexamination certificate* 6,063rd (issued Dec. 12, 2007); U.S. Patent No. 5,910,988 (issued June 8, 1999), *reexamination certificate* 5,957th (issued Oct. 23, 2007); DataTreasury Corp. v. WellsFargo & Co., No. 2:06-cv-72 (E.D. Tex., Aug. 1, 2011)(final judgment order).
- 38 Pub. L. No. 112-29, § 18(d)(1), 125 Stat. 283, 331.
- 39 77 Fed. Reg. 48,734, 48,735 (Aug. 14, 2012).
- 40 37 C.F.R. § 42.301(b).
- 41 Pub. L. No. 112-29, § 18(a)(1)(D), 125 Stat. 283, 330.
- 42 See U.S. PATENT & TRADEMARK OFF., *AIA Progress as of November 20, 2014*, available at http://www.uspto.gov/ip/boards/bpai/stats/112014_aia_stat_graph.pdf. The 78% overall grant rate for IPR is appreciably lower than the 93% grant for *ex parte* reexamination, suggesting that Congress did succeed in raising the threshold for instituting post-issuance review proceedings. That said, and though the current trend is favorable, the data on reexamination is richer than that for IPR so the numbers may yet equalize, especially considering that after a drop to 77% grant rate in FY2014, the FY2015 rate is back up to 86%.
- 43 One case was submitted only for the purposes of an unopposed amendment, and therefore is not counted in the total.
- 44 John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 209 (1998).
- 45 Shawn P. Miller, *Where's the Innovation: An Analysis of the Quantity and Qualities of Anticipated and Obvious Patents*, 18 Va. J.L. & TECH. 1, 6 (2013).
- 46 *AIA Progress as of November 20, 2014*, *supra* note 42.
- 47 Tony Dutra, *Rader Regrets CLS Bank Impasse, Comments on Latest Patent Reform Bill*, Bloomberg BNA (Oct. 29, 2013), available at <http://www.bna.com/rader-regrets-cls-n1719879684/>.
- 48 VirnetX Inc. v. Apple Inc., 925 F. Supp. 2d 816, 825 (E.D. Tex. 2013).
- 49 IPR2013-00375, 00376, 00377, and 00378 (all filed June 23, 2014).
- 50 Michelle Carniaux & Michael E.Sander, *The Curious Case of New Bay Capital LLC and VirnetX Inc.*, IPR BLOG (Nov. 22, 2013), available at <http://interpartesreviewblog.com/curious-case-new-bay-capital-llc-virnetx-inc/>.
- 51 American Intellectual Property Law Association estimates that the “all-in” cost for an IPR is somewhere between \$300,000 and \$500,000. See AM. INTELLECTUAL PROP. ASS'N, *Comparison of Federal Court, ITC, and USPTO Proceedings in IP Disputes* (Jan. 2014), available at http://www.aipla.org/committees/committee_pages/IP-Practice-in-Japan/Committee%20Documents/2014%20MWI%20Presentations/Tom%20Engellenner%20-%20IP%20Dispute%20Cost%20Comparison.ppt.
- 52 Tom Shaughnessy, *VirnetX: New Bay Capital LLC's And Apple's Contrived IPRs - Part 2: New Bay Retraces*, SEEKING ALPHA (Oct. 25, 2013), available at <http://seekingalpha.com/article/1772542-virnetx-new-bay-capital-llcs-and-apples-contrived-iprs-part-2-new-bay-retraces>.
- 53 See H.R. REP. NO. 112-98, at 48 (2011).
- 54 IPR2014-00171; -00172; -00173; -00174; -00175; -00176; and -00177 (all filed Nov. 20, 2013).
- 55 <http://www.rpxcorp.com/about-rpx/>.
- 56 IPR2014-00177 (Petition for Review at 2-4).
- 57 IPR2014-00171; -00172; -00173; -00174; -00175; -00176; and -00177 (order denying IPR at 4-6, filed June 5, 2014), available at <http://cdn.arstech-nica.net/wp-content/uploads/2014/06/RPX-IPR-denied.pdf>.
- 58 *Id.*
- 59 IPR2013-00034 (filed Oct. 26, 2014).
- 60 *Id.* (order granting IPR in part and denying in part) (filed Apr. 2, 2013).
- 61 *Id.* (final judgment order) (filed Mar. 27, 2014).
- 62 CBM2014-00115 (filed Apr. 10, 2014).
- 63 *Id.* (order instituting CBMR) (filed Mar. 10, 2014).
- 64 For a full discussion of the abuses in the system, see Gregory Dolin, *Dubious Patent Reform*, 56 B.C.L. REV. ____ (forthcoming 2015), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2488220.
- 65 Indeed, recent Federal Circuit decision has hinted that stays *must* be granted absent compelling reasons to the contrary. See *VirtualAgility Inc. v. Salesforce.com, Inc.*, 759 F.3d 1307 (Fed. Cir. 2014).
- 66 *Vasudevan Software, Inc. v. Microstrategy, Inc.*, 3:11-CV-0663, D.E. 172 (N.D. Cal. Mar. 11, 2013) (order denying sanctions).
- 67 IMMUNOGEN, INC., *Our Mission*, available at <http://www.immunogen.com/about-immunogen/mission-and-vision/>.
- 68 *Phigenix, Inc. v. Genetech, Inc.*, 14-cv-00287 D.E. 1 (N.D. Ga. Jan. 31, 2014) (Phigenix's complaint alleging patent infringement at 5-9).
- 69 IPR2014-00676 (filed Apr. 22, 2014) and IPR2014-00842 (filed May 29, 2014).
- 70 IPR2014-00676 (decision instituting IPR) (Oct. 29, 2014). The other petition remains pending.
- 71 See H.R. 3309, Innovation Act (113th Cong. 2013). Kate Tummarello, *President calls for patent reform in SOTU*, THE HILL, Jan. 28, 2014, available at <http://thehill.com/policy/technology/196754-obama-calls-for-patent-reform>.
- 72 H. Rept. 113-279 at 16-44 (2013).

