

**UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Alexandria Division**

VERSATA DEVELOPMENT GROUP,)
INC.,)
)
Plaintiff,)
)
vs.)
)
TERESA STANEK REA,)
Acting Under Secretary of)
Commerce for Intellectual Property)
& Acting Director of the United)
States Patent & Trademark Office,)
)
Defendant.)
_____)

Civil Action No. 1:13cv328

MEMORANDUM OF LAW IN SUPPORT OF DEFENDANT’S MOTION TO DISMISS

Pursuant to Local Rule 7(F)(1), defendant, through her undersigned counsel, hereby respectfully submits the instant memorandum of law in support of her motion to dismiss in the above-captioned action.

INTRODUCTION

In 2011, through the America Invents Act (“AIA”), Congress created two new intricate schemes for administrative and judicial review of the validity of issued patents. It did so with a substantive goal in mind – to lessen the burdens (on both litigants and jurists alike) inherent in federal district court litigation over such issues. And as such, each of these systems provides for extremely streamlined review, including one level of administrative review (before the Patent Trial and Appeal Board (“PTAB”) at the United States Patent and Trademark Office (“USPTO”)) that must generally be completed within one year, and one level of appellate judicial review (before the Federal Circuit) at the termination of administrative proceedings.

But here, plaintiff Versata Development Group, Inc. asks this Court to create an enormous hole in this streamlined system, and allow each and every individual or entity dissatisfied with the PTAB's mere *institution* of administrative review proceedings to cross the street and *immediately* file a lawsuit in this Court challenging that decision through the Administrative Procedure Act ("APA"). Congress, recognizing the damage that such collateral federal litigation could cause its streamlined system, fortunately prevented this result in two ways. First, in the AIA itself, Congress explicitly provided that the decision "whether to institute" this type of administrative review proceeding – the very decision that Versata's own complaint concedes is the gravamen of this action – is "final and nonappealable." 35 U.S.C. § 324(e). And were this section, despite its clarity, somehow inapplicable here, the APA's general requirement that there be "final agency action," 5 U.S.C. § 704, would preclude the exercise of this Court's jurisdiction, because the PTAB's order to institute proceedings is interlocutory in nature. Finally, Versata has an "adequate remedy" in an appeal to the Federal Circuit at the end of the PTAB's proceedings, which it only need exercise should the PTAB ultimately reject the claims of its issued patent.

STATUTORY AND REGULATORY BACKGROUND

Versata's instant request for this Court to exercise interlocutory APA jurisdiction generally concerns new processes created by Congress through the AIA by which the USPTO reviews the validity of an issued patent. The courts have repeatedly recognized that the availability of these administrative options serve significant public interests, including, *inter alia*, "to correct errors . . . and if need be to remove patents that never should have been granted." Patlex Corp. v. Mossinghoff, 758 F.2d 594, 604 (Fed. Cir. 1985); see also Callaway Golf Co. v.

Kappos, 802 F. Supp. 2d 678, 686 (E.D. Va. 2011).

It is thus important to provide a threshold general discussion of the new processes created through the AIA. But to understand these processes (including that which is implicated here, “post-grant review”), it is similarly necessary to explore the evolution of those administrative processes that were previously available (before the AIA) for the review of issued patents. As will be seen, although the various systems that Congress has developed (and ultimately modified or eliminated) differ in many ways, this evolution reveals a single constant – Congress’s desire to develop a viable administrative system for patent review to *lessen* the amount of litigation in the federal courts.

I. PRE-AIA ADMINISTRATIVE REVIEW – PATENT REEXAMINATION

A. PATENT EXAMINATION

At the outset, an individual who seeks a patent on a particular invention must file an application with the USPTO that contains a specification and an oath by the applicant to the effect that he or she believe that they are the original inventor of the invention at issue. See 35 U.S.C. §§ 111(a); 115. A USPTO patent examiner thereafter reviews the application and makes a determination as to whether the application claims presents claims that are patentable. See id. § 131. If “it appears that the applicant is entitled to a patent under the law,” the USPTO “shall issue a patent.” Id.

B. PATENT REEXAMINATION

1. “Ex Parte” Reexamination

Until approximately 1980, individuals or entities seeking to challenge the validity of an issued patent were without any real administrative recourse. Congress concluded that this gap

forced many to file costly and time-consuming challenges to patent validity in the federal court system, when the same challenge “could be conducted with a fraction of the time and cost of formal legal proceedings.” See H.R. RPT. 96-1307, at 3 (Sept. 9, 1980), reprinted in 1980 U.S.C.C.A.N. 6460, 6462. Congress therefore created an administrative alternative to federal court litigation known as “*ex parte* reexamination,” which authorized third parties to make a request that the USPTO reexamine “the substantive patentability” of an issued patent. 35 U.S.C. § 302 (2010).¹

The use of the modifier “*ex parte*” to describe this form of reexamination was significant, and reflected the nature of that type of administrative reexamination. In short, if the USPTO accepted a third-party’s request (*i.e.*, concluded that there is a “substantial new question of patentability,” 35 U.S.C. § 303(a)), and instituted reexamination proceedings, the resulting proceedings would generally continue only between the USPTO and the patent owner. See Syntex (USA), Inc. v. USPTO, 882 F.2d 1570, 1573 (Fed. Cir. 1989). Other than “the right to reply to any statement submitted by the patent owner . . . [t]he statute [gave] third party requesters no further, specific right to participate in the reexamination proceeding.” Id.; see also 35 U.S.C. §§ 304-05. If the examiner responsible for conducting the reexamination discovered that the claims were not actually patentable, he or she would issue a final office action rejecting those claims. See 35 U.S.C. § 305.

2. “*Inter Partes*” Reexamination

¹Given the extensive amendments made to the Patent Act through the AIA – especially in the context of administrative and judicial review of issued patents – all statutory citations within this section (*i.e.*, concerning patent reexamination) are to the 2010 codification of the United States Code.

Almost twenty years later, in 1999, Congress – after reviewing whether progress had been made in reducing federal court litigation concerning the validity of issued patents in favor of USPTO reexamination – elected to modify the system once again. In this respect, Congress found that individuals and entities were not utilizing the existing reexamination procedure because “a third party who requests reexamination cannot participate at all after initiating the proceedings.” H.R. CONF. RPT. 106-464, at 133 (Nov. 9, 1999); see also id. (“Numerous witnesses have suggested that the volume of lawsuits in district courts will be reduced if third parties can be encouraged to use reexamination by giving them an opportunity to argue their case for patent invalidity in the USPTO.”). In 1999, Congress therefore created a new “*inter partes*” reexamination procedure that authorized the third-party requester to participate in the administrative reexamination proceedings. See 35 U.S.C. § 314. More specifically, in “*inter partes*” reexamination, “[e]ach time that the patent owner file[d] a response to an action on the merits . . . the third-party requester [had] one opportunity to file written comments addressing issues raised by the action . . . or the patent owner’s response.” Id. § 314(b)(2). And just like *ex parte* reexamination, if the examiner responsible for reexamining the patent concluded that the relevant claims were not patentable, he or she issued an office action rejecting the same. See id. § 314(a).

II. AIA ADMINISTRATIVE REVIEW – INTER PARTES REVIEW & POST-GRANT REVIEW

By 2011, however, Congress remained dissatisfied with the progress it had made in limiting federal court litigation over the validity of issued patents by enhancing the viability of USPTO administrative remedies:

Nearly 30 years ago, Congress created the administrative “reexamination” process, through which the USPTO could review the validity of already-issued patents on the

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