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# EXAMINING REEXAMINATION: NOT YET AN ANTIDOTE TO LITIGATION

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## INTRODUCTION

While the Sedona Conference is dedicated to the advancement of law and policy in the area of patent *litigation*, it is no secret that most litigants are displeased (or worse) with the cost, pace and unpredictability of lawsuits seeking to enforce or challenge U.S. patents. This paper addresses one alternative to litigation—*inter partes* reexamination, presenting the latest evidence regarding experiences with that alternative and asking whether it offers a real option to patentees or challengers alike.

### I. *INTER PARTES* REEXAMINATION: PROCEDURAL REVIEW

Congress attempted to enact a substantial and beneficial change in U.S. reexamination law when it passed Subtitle F of the American Inventors Protection Act of 1999, entitled “Optional *Inter Partes* Reexamination Procedures.” See Subtitle F of the American Inventors Protection Act of 1999, 35 U.S.C. Chapter 31 (hereafter “Chapter 31 proceeding”). As indicated by the title, the new procedure did not repeal or even amend prior provisions regarding *ex parte* reexamination. Rather, the new procedure was created to give patent challengers the option of participating after reexamination is ordered by the Patent and Trademark Office (“PTO”).<sup>1</sup> The stated goal of the legislation was to improve “the quality and reliability of United States patents.” 65 Fed. Reg. 18154. In addition, proponents hoped to make patent reexamination a more viable alternative to litigation in the federal district courts. Regrettably, however, as we predicted several years ago, practitioners continue to be wary of this new administrative proceeding.

An *inter partes* reexamination begins with the submission of a request for reexamination. 35 U.S.C. Section 311(a).<sup>2</sup> The only ground for seeking reexamination under either chapter is prior art consisting of patents or printed publications.<sup>3</sup> *Id.* The PTO has three months from the filing of a request for reexamination in which to determine whether the request raises a substantial new question of patentability affecting any claim of the patent. *Id.* Section 312(a). The scope of the claims cannot be enlarged as a result of reexamination.<sup>4</sup>

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<sup>1</sup> The Intellectual Property Technical Amendments Act of 2000 (H.R. 4870) adopted a few, minor changes in the wording of Chapter 31 to clarify the fact that patent owners cannot request reexamination under this chapter. Rather, it was enacted to allow third parties to challenge the validity of patent claims.

<sup>2</sup> The new procedure can be invoked only for patents issuing on applications filed on or after November 29, 1999.

<sup>3</sup> Thus, a request for reexamination on any other basis (lack of enablement, prior use or sale, inequitable conduct, etc.) will fail. If a request for reexamination is based on several issues, including prior art issues, a reexamination may result but non-prior art issues will be ignored. 37 C.F.R. Section 1.906.

On the other hand, while the grounds for the initial request for *inter partes* reexamination are limited to prior art, appeals may raise issues under 35 U.S.C. Section 112, first paragraph as well. 37 C.F.R. Section 1.965 (c)(8)(i). Unlike the *inter partes* reexamination itself, in an appeal of the reexamination to the Board of Patent Appeals and Interferences there is the possibility of an oral hearing. 37 C.F.R. Section 1.973. A decision by the Board may include a new ground of rejection, but such a rejection “shall not be considered final for purposes of judicial review.” *Id.* Section 1.977.

<sup>4</sup> See 35 U.S.C. Section 314(a). Likewise, any proposed amended or new claim determined to be patentable and incorporated into a patent has the same effect as that specified in section 252 for reissued patents. *Id.* Section 316(b).

If the PTO determines that there is a substantial new question of patentability, an *inter partes* reexamination is ordered. *Id.* Section 313. It is the PTO's stated intention that each *inter partes* reexamination will be assigned to an examiner who was not actually involved in the examination and issuance of the patent in question. This will be done as a matter of policy, and not by a change in the rules (*see* 65 Fed. Reg. 76756, 76757 – 58, Response to General Comment 1, Rules to Implement Optional Inter Partes Reexamination Proceedings, December 7, 2000). Similarly, where the *inter partes* reexamination was refused but then ordered following a petition to review the refusal (a petition under 37 C.F.R. Section 1.927), “the *inter partes* reexamination will ordinarily be conducted by an examiner other than the examiner responsible for the initial determination under Section 1.923.” 65 Fed. Reg. 76780. Recently, for *inter partes* reexaminations, the PTO has promised that it “will have the reexamination performed by specially-assigned senior staff, and will use this (as) a pilot for the possibility of an expert panel or board to handle all *ex parte* reexaminations, as well” (remarks by Todd Dickenson, reported in U.S.P.T.O. Today Vol. 1 p. 9 June-July, 2000). Still further, “prior art submitted pursuant to 35 U.S.C Section 301 and 37 CFR Section 1.501 will be reviewed at the Group Director level, with an eye towards serving as a possible basis for Director Ordered Reexaminations.” *Id.*

After the grant of reexamination, procedures change dramatically from prior, *ex parte* practice. Most significantly, any document filed by the patent owner or requester has to be served on the other party.<sup>5</sup> *Id.* Section 314(b). Any time the patent owner files a response to an Office Action, the requester also has an opportunity to file written comments within thirty days of service. Likewise, either the patent owner or the requester may appeal an adverse finding by an examiner to the Board of Patent Appeals and Interferences, after paying a fee. 35 U.S.C. Section 315(a) and (b). And, both the challenger and the patent owner may appeal to the Federal Circuit from an adverse determination by the Board of Patent Appeals and Interferences. *Id.* Section 315(a)(1).

The effect of an *inter partes* proceeding on pending litigation is also different from *ex parte* reexamination. The patent owner may obtain a stay of any pending litigation involving an issue of patentability of any patent claims which are the subject of an *inter partes* reexamination. 35 U.S.C. Section 318. A stay may be denied only if the district court “determines that a stay would not serve the interests of justice.” *Id.* Even more important, a requester whose reexamination request is granted must include in that request all grounds available to him at the time. If the reexamination request is granted, the requester will be estopped, in subsequent litigation in the district court or a subsequent Chapter 31 proceeding, to assert the invalidity of any claim finally determined to be valid on any ground which he raised or *could have raised* in the *inter partes* reexamination. *Id.* Section 315(c).<sup>6</sup> Thus, while the new procedure offers the advantage of third-party participation in the reexamination of a patent, it also embodies the significant penalty that failure to convince the PTO of the invalidity of the relevant claims can be overcome only by successful appeal to the Federal Circuit (a feat for which we have no precedent as of yet), making *inter partes* reexamination something of a double-or-nothing gamble.<sup>7</sup>

There also is an estoppel with respect to *inter partes* reexamination requests submitted after the conclusion of a prior *inter partes* reexamination or civil court action. That is, the requester *and* its privies may not request an *inter partes* reexamination of any

5 Unlike a court proceeding, there are no face-to-face exchanges (37 C.F.R. Section 1.955); all communications are in writing (37 C.F.R. Section 1.937(c)).

6 This provision does not literally apply to privies of the requester. The different treatment of privies depending on whether the reexamination or litigation is initiated first may have been a legislative oversight, but has not been altered in subsequent amendments.

7 If the first proceeding is a Chapter 31 proceeding, the estoppel provisions apply to subsequent litigation brought by the requester. However, “privies” of the requester apparently are *not* estopped in such a situation to relitigate the invalidity of the patent in district court. *Id.* Section 315.

patent claim, once a final decision has been entered against that party either in district court or the PTO with respect to the patentability of any claim of the patent, on grounds that were raised *or could have been raised* in the civil action or first *inter partes* reexamination proceeding. *Id.* Section 317(b).

Some limited relief from the estoppel provisions are found in the provisions allowing assertions of invalidity in subsequent civil proceedings (35 U.S.C. Section 315(c) and in subsequent *inter partes* reexamination requests (35 U.S.C. Section 317 (b)) “based on newly discovered prior art unavailable to the third-party requester and the Patent and Trademark Office at the time of the *inter partes* reexamination proceedings.” The legislation does not define the term “available.” Future case law will decide whether that term means “available” to any employee of a corporation, a managing officer, or an attorney. Litigation also will likely explore whether “available” means “able to be found,” “known to” or actually in the custody of the requester or the PTO at the time of the reexamination. Finally, it is not clear whether “available” means available any time during the reexamination, or merely at the time that reexamination is first sought.

## II. FACTS AND STATS REGARDING INTER PARTES REEXAMINATION

From 1999-2002, ten *inter partes* reexamination requests were filed at the PTO; in 2003, eighteen were filed through October. According to the USPTO, all reexamination requests have been accepted. So far, only one case has reached a final holding. In this case, all claims were cancelled because the patentee never responded. To the knowledge of the USPTO, only 5 of the requests were associated with litigation. Three of the proceedings have been vacated: one because the requester never managed to correct informalities within a three-month deadline, and two because the requester subsequently lost his invalidity arguments in a co-pending litigation (and so became estopped from proceeding at the USPTO). The average pendency was about 15 months.

Given the low numbers of cases filed, it is impossible to glean trends or report valid statistics. (By comparison, 272 *ex parte* reexamination requests were filed in 2002 and 9615 patent cases were filed in United States district courts between 1995 and 1999<sup>8</sup>.) Nonetheless, a few facts are worth noting. Six of the patents under reexamination pertain to chemistry (including one in genetic engineering), eight involve electronics and fourteen concern mechanical devices and/or methods. Surprisingly, none pertain to the fields of business methods or software. In two of the first seven cases, an *ex parte* reexamination also was started, either immediately after the filing of the reexamination request or within two months. However, the PTO has followed rule 37 C.F.R. Section 1.989(b) and has merged the proceedings. Accordingly rights of the third party requesters are not being adversely affected by the concurrent *ex parte* reexaminations.

Of the twenty eight total challenges over the three year period, seven were filed on behalf of foreign companies, eighteen for U.S. companies, one for a U.S. non-profit foundation, one for an individual, and one was reported as filed with an “unknown” real party in interest. No industry association was listed as a real party in interest. Four of the challenges over the three year period came from one company (Shimano, Inc.) against varied patents. Thus, industry associations have not begun use of this procedure but at least one foreign company may be taking advantage of this system to avoid litigation.

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<sup>8</sup> Our enumeration of *ex parte* reexaminations; the number of patent cases is from Kimberly Moore, “Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?” 79 North Carolina Law Review 889, 901 (2001)

Of the first 7 cases studied in detail, none appear to be linked to pending litigation. The challenger asserted publications (generally U.S. patents) to support anticipation and obviousness arguments. In one case, a U.S. patent that had been considered previously by an examiner was asserted as invalidating art under Section 103 in combination with a newly discovered patent. In another instance, the challenger also argued invalidity on indefiniteness and written grounds. The PTO properly responded to the latter by refusing to consider non-prior art bases of patent invalidity, but advised the patentee to consider filing a reissue based on the arguments if they were persuasive. Thus, a third party may use *inter partes* reexamination to place non-prior art arguments for invalidity on the record and thereby provide formal notice to a patentee of possible defects in an issued patent.

In general, *inter partes* proceedings appear to have been “conducted with special dispatch” as specified in 37 C.F.R. Section 1.937—at least at the start<sup>9</sup>. The PTO issued all five of the first grants for reexamination within three months of the third party’s request and four of the five grants were accompanied by first Office Actions. However, it hardly can be said that reexaminations are concluding with dispatch. The first request for reexamination was filed on July 27, 2001 yet the proceedings had not progressed beyond an initial round of rejections and an amendment in the following 17 months. Indeed, the first two cases were significantly delayed by the patentee having to correct improper claim amendments, which differed in form from that used in regular patent application prosecution.

Finally, as a matter of policy and procedure, the PTO is assigning new examiners to *inter partes* reexamination and thus avoiding the situation where an examiner is asked to reconsider a patent already allowed.

### III. THE UNFULFILLED PROMISE OF *INTER PARTES* REEXAMINATION

Patent litigation is costly and lengthy, and the ultimate outcome is uncertain. In Texas (one of the more expeditious venues), going through trial may cost between \$1.5 and 2.5 million dollars<sup>10</sup>. The median cost, nationwide, for a patent suit taken through trial is reported to be \$1.2 million.<sup>11</sup> If a patent case gets to trial after several years of discovery and motion practice (only about 5% do<sup>12</sup>), the trial typically will be longer than other civil trials, with almost 10% requiring 20 or more days of trial (*vs.* less than 1% of all civil cases requiring 20 or more days of trial). Thus, the few patent cases that do reach trial are more complex, lengthy, and expensive than the average civil case.<sup>13</sup> Surprisingly, a patentee who has endured the time and expense has only a 58% chance of winning at trial.<sup>14</sup> Then, after two to four years of discovery requests, depositions, meetings with counsel, and trial (all of which distract senior engineers and management, disrupt company operations, and cost millions of dollars), it is time for the appeal. It is common knowledge that the Federal Circuit is very likely to overturn some if not all of what was decided in the trial court and then remand.

Given this rather bleak scenario, most putative defendants (and even some patentees) would welcome alternative ways to settle claim scope and validity of U.S. patents.

<sup>9</sup> However, at least one observer has noted that *inter partes* reexamination proceedings may be conducted with *too much* dispatch. As described by Peter DiMauro from “PatentWatch” in a letter to the Comment Box at the USPTO, dated June 27, 2003 commenting on the proposed changes noticed in the Federal Register, Vol. 68, No. 81, the USPTO issued an Order under 35 USC 313 declaring that a substantial new question of patentability existed, and, at the same time, issued an Office Action confirming the patentability of all claims; DiMauro suggested that such dispatch “eviscerates the prosecution stage altogether.”

<sup>10</sup> *Austin Business Journal* for January 17-23, 2003, Volume 22, number 44, at 18.

<sup>11</sup> Intellectual Property Insurance Services Corporation, Louisville Kentucky 40223. See <http://www.infringeins.com>

<sup>12</sup> Kimberly Moore, “Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?” 79 *North Carolina Law Review* 889, 909 (2001), finding 49% of patent cases terminated from 1995 to 1999 terminated before any significant court action; 46% of patent cases terminated from 1995 to 1999 terminated after some court action but before trial; and only 5% of patent cases terminated from 1995 to 1999 terminated during or after a trial began.

<sup>13</sup> *Id.* at 931.

<sup>14</sup> “Judges, Juries and Patent Cases: An Empirical Peek Inside the Black Box,” 98 *Michigan Law Review* 98:365,381 (2000)

Prior to 1999, one avenue of attacking a patent (or rebutting a challenge to a patent) was *ex parte* reexamination. However, that alternative was attractive only to patentees because they tended to prevail 88% of the time.<sup>15</sup> *Inter partes* reexamination was intended to redress the perceived bias of the prior procedure. Yet, as a famous baseball player might have said, people are staying away from the *inter partes* reexamination procedure in droves. Why?

Our informal survey of patent attorneys determined that most were hesitant to use the new procedure because of potential estoppel and uncertainty as to how courts will interpret its scope. As discussed above, a party (and privies to that party) is estopped from raising an issue in subsequent litigation that was raised *or could have been raised* in a prior *inter partes* reexamination. Unfortunately, the courts have not interpreted the meaning of “or could have been raised.” At a minimum, a party likely would be obligated to assert all prior art encountered by the party at the time of filing a reexamination request, or be precluded from asserting that art in any district court or in a reexamination proceeding. This is particularly onerous when the meaning of a patent claim may not become clear until the Federal Circuit has reviewed a case on appeal.<sup>16</sup>

In addition, it is quite common for lawyers to assert in litigation multiple, alternative defenses — some prior art based, some based on Section 112, and some based on claim construction. This strategy is not effective in the reexamination context, where invalidity challenges are limited to printed publications and patents. Thus, where a great deal is at stake, this is a second, cogent reason for defendants to avoid the PTO.

On the other hand, where the amount at risk is relatively low (less than \$5 million), *inter partes* reexamination may make sense for the accused infringer that believes it has a very good invalidity defense. In that situation, *inter partes* reexamination can provide a cost effective alternative to patent litigation or to seeking a settlement with the patentee. Indeed, simply starting the reexamination process could reduce the settlement value of a dispute by threatening to tie up the patent for the years that the PTO might take to reach a conclusion. Where the value of the intellectual property involved is low, so that litigation is not worthwhile, the obvious disadvantage of *inter partes* reexamination — estoppel — is not so serious because the party is effectively “estopped” from pursuing litigation by financial considerations.

In addition, some types of patents will be more susceptible to successful attack by *inter partes* reexamination than others. For example, many business method patents and software patents are believed to be vulnerable to prior art challenge, due to the lack of prior art and search capability available to the Patent Office, and the lack of experience with these fields that have been only newly-recognized as patentable. In addition, the amounts at risk may be small, and many of the companies in these fields that are too small to absorb litigation costs could handle the costs of an *inter partes* challenge.

*Inter partes* reexamination also provides a second avenue for seeking a favorable claim interpretation from the Federal Circuit, possibly more quickly and certainly less expensively than going through a full trial in federal district court. Thus, a party who is relying on a technical, field-specific definition of a claim term to win an invalidity argument may do better to advance the argument to the PTO. Of course, the Federal Circuit has the

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15 Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 Berkeley Tech. L. J. 577, 611-13 (1999)

16 Trade groups may comprise small company members with a shared interest in blocking patents that have been issued without consideration of important prior art. An important, unanswered question is whether the estoppel extends to all members of an organization that undertakes an *inter partes* reexamination request? If not, such an organization might undertake to initiate an *inter partes* reexamination procedure on its own, leaving its individual members free to pursue litigation on the same issues in the event of an unfavorable outcome.

final say on claim interpretation regardless of the source of appeal. It will be extremely interesting, in coming years, to see whether the Federal Circuit gives as little deference to the PTO's work product in reexamination as it has to district court claim construction.

Although most comments on the new procedure have considered *inter partes* reexamination merely as an alternative to litigation, *inter partes* reexamination also offers a possible alternative to licensing a patent. It is well-established that a licensee is *not* estopped from challenging the validity of a licensed patent<sup>17</sup>. Thus, a party may take a license and challenge the validity of the patent in the PTO at the same time. This alternative may also play a part in the license negotiations, since the availability of the low-cost *inter partes* reexamination may make a challenge to the patent more credible. Conversely, patentee may well consider adding a "shall use *inter partes* reexamination" contract clause in agreements with others, to limit future exposure of a patent to litigation challenge. Although this circumstance has not been reviewed by the Federal Circuit, an obligatory *inter partes* reexamination clause could be treated as an arbitration clause and force the use of reexamination. Courts strongly honor arbitration clauses in contracts and the Federal Circuit has demonstrated a willingness to go out of its way to uphold such agreements.

## CONCLUSION

*Inter partes* reexamination clearly has not fulfilled the promise of becoming a truly viable alternative to litigation. However, it would be error to disregard it entirely. It remains an interesting and potentially useful tool for certain types of disputes and in certain business settings. And, with more time, we will know whether it at least affords a more fair and informed setting for evaluation of issued patents.

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<sup>17</sup> *Lear, Inc. v. Adkins*, 395 U.S. 653, 671 (1969) finding that a licensee is not estopped from challenging the patent which has been licensed.