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Reexamination: A Viable Alternative to Patent Litigation?[†]

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Abstract: Recent concern over the state of patent law doctrine has led Congress to pass legislation reforming patent reexamination procedures. The effects of the new procedures will remain uncertain for several years. However, Dale Carlson, Co-chair of the Patent Practice Group at Wiggin & Dana, and Jason Crain, a Yale Law School graduate, discuss the results of a preliminary study of the likely impact of the new inter partes reexamination procedure. In this presentation, Carlson and Crain examine some of the driving forces behind the reform initiative and compare ex parte reexamination procedures with inter partes reexamination procedures. In particular, they address concerns of biases inherent in the new procedure. Ultimately, Carlson and Crain suggest that the new procedure will provide a viable alternative to patent litigation, particularly for small inventors.

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I. INTRODUCTION

¶1 I am sure that everyone in the room recognizes the significance of patent law in the popular press these days. At the outset, you may recall an article entitled "Patently Absurd" that appeared in the *New York Times* a couple of weeks ago.¹ The article spoke to the issue of business method patents in light of the *State Street Bank* decision² and raised the question of whether such patents have gone too far in extending the concept of patent protection. The author, James Gleick, hypothetically invents a procedure for

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¹ James Gleick, *Patently Absurd*, N.Y. TIMES, Mar. 12, 2000 (Magazine).

² *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1093 (1999).

simultaneously walking and chewing gum, and he shows drawings for the patent of this procedure, which he numbers the two-trillion-and-something patent.

¶2 While Gleick's vision may appear more than a little far-fetched, recent concern over the state of patent law has led Congress to pass legislation reforming patent reexamination procedures. The most significant change made by the legislation is the introduction of what is called inter partes reexamination. The effects of this new procedure will remain uncertain for the next one to two years. However, a preliminary study of inter partes reexamination suggests it will provide a viable alternative to patent litigation in many cases.

II. SOME REFORM INITIATIVES

A. *The Patent and Trademark Office*

¶3 The Patent and Trademark Office (PTO) has begun to respond to the sorts of issues being raised in the popular press about its methodology for conducting business method patent examinations. They have posted enhanced procedures for performing examinations on their website.³ Those procedures include using two examiners rather than one and conducting a more enhanced search protocol from the beginning. The PTO's enhanced examination hopefully enables them to act more cautiously before allowing a patent to issue on walking and chewing gum simultaneously in the first instance.

B. *Congress and the American Inventors Protection Act of 1999*

¶4 In legislation that was recently enacted, the American Inventors Protection Act of 1999,⁴ one of the sections relates to reexamination⁵ and another relates to the so-called First Inventor Defense Act of 1999.⁶ The First Inventor Defense Act of 1999 provides a defense against charges of patent infringement for a party who in good faith reduced the subject matter of the invention to practice at least one year before the effective filing date of the relevant patent and used the subject matter commercially before the

³ See <http://www.uspto.gov>.

⁴ Pub. L. No. 106-113, 113 Stat. 1501 (1999).

⁵ Subtitle F of the American Inventors Protection Act of 1999 is entitled the Optional Inter Partes Reexamination Procedure Act of 1999, Pub. L. No. 106-113, 113 Stat. 1501, 1501A-567 to 1501A-570 (1999).

⁶ Subtitle C of the American Inventors Protection Act of 1999 is entitled the First Inventor Defense Act of 1999, Pub. L. No. 106-113, 113 Stat. 1501, 1501A-555 to 1501A-557 (1999).

effective filing date. The defense is limited to methods of doing or conducting business.

¶5 Since the prior user defense is strictly limited to methods of doing or conducting business, if you are a chemical company doing a chemical business like manufacturing polyurethane chemicals, you are probably not going to prevail on the argument that you want to employ the First Inventor Defense against a patent relating to making polyurethanes. Thus, even though you have been using that chemical methodology to produce polyurethanes for more than a year before the filing date of the patent in question, *and* it is your business, you are probably not going to prevail in asserting the prior user defense since the subject patent is not a business method patent, at least in the narrowest sense.

III. REEXAMINATION

¶6 If you are representing a client who wants to employ a first inventor defense but cannot do so because of the statutory limitations to methods of doing or conducting business, you will need to explore other opportunities on behalf of your client. This is particularly the case if your client is a small company or an individual and cannot afford to litigate. In these situations, the reexamination protocol is an option that should be explored. Until now, only an *ex parte* proceeding was available, but now an *inter partes* reexamination provides a better option.

A. *Ex Parte* Reexamination

¶7 During *ex parte* reexamination, the third-party making the reexamination request is very limited in terms of their rights to participate in the proceedings before the PTO. Basically, the third party is in a tight situation. In other words, the third party has new prior art that it feels is better than what had been looked at during the original examination, and it determines that its best available option is to bring an *ex parte* reexamination procedure. Under these circumstances, the third party is going to be off the playing field very rapidly, inasmuch as it is limited in its rights to raising the issue of the uncited prior art to the PTO in the first instance. Thereafter, only the patent-holder can go forth with arguments in front of the PTO. It is no wonder, then, that it is popularly believed that the *ex parte* protocol was a method for the patent owner to take subject matter that was invalid, in view of the uncited prior art, and infringed by the third party, and end up with a patent that was valid and still infringed by the third party. Thus, a significant downside risk exists for the third party associated with the *ex parte* protocol.

B. *Inter Partes* Reexamination

¶8 The new inter partes reexamination opportunity was passed into law on November 29, 1999, as part of the Inventors Protection Act of 1999.⁷ Under Subtitle F, you'll find the Optional Inter Partes Reexamination Procedure Act of 1999.⁸ This was part of an omnibus package that promises great change for patent law, at least from the PTO's perspective. This procedure is meant to increase the attractiveness of reexamination over the costly alternative of district court litigation. This is not a new goal; indeed, similar legislation was introduced as far back as 1995.

¶9 The initial ex parte opportunity has been limited in its success, and it has not been widely utilized, partly because of the concern that defendants do not want to use their so-called "silver bullet;" that is, a piece of really good prior art. Why should they use that prior art in an ex parte proceeding, where they will have a very limited opportunity to participate in the proceeding and face the downside risk of an enhanced patent? Why should a defendant give up its silver bullet under those circumstances?

¶10 From a practical standpoint, the new inter partes procedure is only applicable to patents that were filed on or after the effective date of the legislation, November 9, 1999, and the provision is not retroactive. It is still too early to know how this new protocol is going to work for at least another year or two. It is clear that the new inter partes protocol was developed to allow full third-party participation. Nevertheless, there are some aspects of the new protocol that make third parties reluctant to participate. For example, third parties are estopped from future litigation on issues that were raised or could have been raised during the inter partes reexamination protocol. Likewise, third parties are refused the right to appeal beyond the Board of Patent Appeals and Interferences (BPAI), and so third parties cannot take their case up to the Federal Circuit; only the patent holder retains that final right of appeal.

⁷ Pub. L. No. 106-113, 113 Stat. 1501 (1999). The whole package of the American Inventors Protection Act of 1999 includes other items, like the as early publication opportunities provided for in Subtitle E. Subtitle E provides for publication of patent applications 18 months after filing unless requested otherwise upon filing with certification that the invention has not and will not be the subject of an application filed in a foreign country. Subtitle E is entitled the Domestic Publication of Foreign Filed Patent Applications Act of 1999, Pub. L. No. 106-113, 113 Stat. 1501, 1501A-561 to 1501A-567 (1999).

The American Inventors Protection Act of 1999 is meant to harmonize U.S. laws with European and Japanese protocols. In Europe and Japan, for example, they do not use inter partes reexamination. They employ an even more comprehensive post-grant opposition procedure. The post-grant opposition procedure has certain limitations. A party has a fixed time-frame, roughly six or nine months, during which to bring the post-grant opposition. After that time has elapsed, the procedure can no longer be initiated. In contrast, the new U.S. inter partes reexamination procedure exists throughout the lifetime of the patent.

⁸ Pub. L. No. 106-113, 113 Stat. 1501, 1501A-567 to 1501A-570 (1999).

¶11 This estoppel provision was enacted as a protection for small companies and individuals against attacks by larger entities. In other words, before it was enacted into law, opponents of the bill argued that the inter partes reexamination would promote large, corporate harassment of small companies and individuals. The theory was that a corporation would first try to invalidate the patent under reexamination, and then, if that were to fail, they would use their extensive resources to engage in long, drawn-out court battles. This would, in essence, give large corporations two bites at the apple: they could start with the administrative protocol, and if they lost, they could simply raise the same issues, or perhaps amplified issues, in subsequent litigation. Estoppel was added as a provision in the new law to prevent that possibility from occurring. So, the third-party requester is estopped, or precluded, from raising issues that could have been raised, should have been raised, or might have been raised during the course of the inter partes reexamination proceeding. The downside is that this estoppel compromise makes the new procedure much less attractive for many parties.

IV. FAIRNESS OF INTER PARTES REEXAMINATION: CONCERNS OF POTENTIAL BIAS

¶12 The new procedure also gives an expanded opportunity to participate in the reexamination proceeding to the third party. The question is whether the procedure is going to be fair in practice. Is this methodology going to be one that is widely used, or is it going to fall by the wayside with the ex parte protocol? To begin, certain issues have been raised with respect to the objectivity of the initial examiners. Since the PTO puts the imprimatur of validity on the original patent, how are examiners going to react when a patent is sent back to that same administrative agency for reexamination? The concern that there is going to be an inherent bias against the third-party requester is high under these circumstances.

¶13 What is the inter partes reexamination like for the third-party requester? Imagine you are the third party, and you have new, significant prior art. You cling to this prior art because you have a patent owner coming at you, threatening litigation because you are supposedly violating the claims of her patent. What course do you take? You could litigate. You could rely on the ex parte procedure, a procedure which has been around for twenty years and is very rarely used because the third party is not involved. Now, under the new inter partes reexamination protocol, the PTO is supposed to scrutinize the patent in light of your new, previously undisclosed prior art. Many people are very concerned that the PTO, the very office that originally authorized the patent, might not be a fair venue. Keep in mind, however, that if you choose litigation, the district court will apply a

presumption of validity to the patent. But what if the reexamination is assigned to the same examiner who originally authorized the patent? Many members of the patent bar fear that such a situation might prevent an unbiased reexamination.

A. Ex Parte Reexamination Requests

¶14 Is the patent bar's concern borne out by all of the statistics? Because the inter partes reexamination is so new and there will not be a patent that could possibly go through this procedure for another year, the only data available covers original examinations, interference procedures, and the ex parte reexamination procedure. Over the course of five years we have collected a significant amount of data to show what the trends are, at least for indicating a bias or lack of bias. In studying the ex parte reexamination, we looked at the first step, when a third-party requester submits a request with prior art to the PTO and asks the PTO to determine whether the prior art raises a new question of validity. That would be the first and most logical point for any bias to manifest itself, because the request goes back to the same examiner. The examiner's inclination might be just to say, "Not a significant question," and be done with it; however, the statistics that we gathered from 1984 to 1988 showed that only ten percent of ex parte reexamination requests were turned down. In ninety percent of the cases the examiner was willing to say, "Yes, this is significant, let's take a look at this again." Thus, little bias against third parties requesting reexaminations is apparent.

B. Ex Parte Reexamination Results

¶15 The next place that bias might show up is in the actual result of the reexamination. The third party only gets one brief in which to explain its argument, while the patent owner files written arguments and converses with the examiner for six months to year, working out how the patent can still stand in light of the new prior art. It really is not a fair shake for a third party, and thus you would think that almost all claims would sail through ex parte reexamination unscathed. What we found, though, was something drastically different. The Advisory Committee found that twenty-four percent of ex parte reexaminations resulted in the confirmation of all claims. While a quarter do sail through unscathed, sixty-four percent end up with the cancellation of some claims, and twelve percent result in the cancellation of the entire patent. Thus, seventy-six percent of third parties' reexamination requests result in findings at least partially in their favor.

C. Appeal Rights of Third Parties

¶16 Included in the inter partes procedure are particular rights of appeal for the third party. If the inter partes reexamination goes against the third party, the third party has a right to appeal to the BPAI. Is the BPAI a fair panel for such an appeal? Are they rubber-stampers for the examiners, or are they indeed legitimate second-checks on what the examiners are doing? We performed a study, again with the 1984 to 1988 data, on interferences and examinations that were contested to the BPAI. These are cases where the BPAI was asked to rule against the patent examiner or the patent owner. The BPAI fully or partially reversed the examiner thirty-nine percent of the time: 3827 instances out of 9791 appeals to that board over four years. Furthermore, the BPAI reversed and remanded on some points thirteen percent of the time. Therefore, roughly fifty percent of the time the examiner's decisions were affirmed, but fifty percent of the time they were either fully or partially reversed. These data sets-the statistics on ex parte reexamination requests and results and the statistics on BPAI reversals-indicate that the new inter partes reexamination can be a fair venue for the third party.

V. CONCLUSION

¶17 Once the procedure is perceived as a fair venue, a two-fold issue must be considered: how widely will it be utilized, and does it properly supplement or even supplant traditional litigation? We would expect fairly wide utilization by small inventors that do not have the funds available for a full, blown-out litigation. For those party, it is either do or die. They have to find some low cost vehicle to have the patent invalidated or the claims narrowed in scope. Under the small inventor's cirstances, the inter partes reexamination procedure provides a very inexpensive route to challenge the patent. What about industry giants? Will they, and should they, utilize the new procedure?

¶18 Many of you are probably familiar with the Dickens Y2K fix that was allegedly adopted throughout corporate America. Mr. Dickens is the owner of a recently issued patent covering that methodology. Dickens had letters sent via his attorneys to 700 of the largest corporations in America informing them of their infringement. Companies like IBM were doubtless aware of very significant prior art that was not raised during the original examination of the Dickens patent. Much of that prior art is posted on various websites and thus is easily accessible. Fortunately, with regard to the Dickens Y2k patent, the Commissioner himself ordered reexamination and the patent is now apparently the subject of three ex parte reexaminations and one reissue proceeding. However, what if this scenario were taking place two years from now, based upon an application that was filed in January of this year? Under the cirstances, would it be wise for portions of the industry to utilize the inter partes protocol? It certainly seems like the wise thing to do,

particularly if a large portion of the industry is aware of the existence of the prior art, via the Internet or otherwise.

¶19 The issue then becomes how a decision by one party to pursue inter partes reexamination impacts other parties. Assume for a moment that pieces of the prior art were brought into reexamination by one party who was alleged to be infringing, but not by others. Assume, furthermore, that the others did not participate in initiating that reexamination, keeping in mind that one must identify the real party in interest in a reexamination request. If Party A makes the request for inter partes reexamination based upon art posted on someone else's website, and Party B, who also is potentially adversely affected by that patent, sits waiting in the wings to see what the result is of that reexamination, does Party B maintain full rights to request an inter partes reexamination? Under those circumstances, there might again be the opportunity for two bites at the apple, indeed two full bites at the apple, under the expanded reexamination protocol.