

## PATENT REEXAMINATION REEXAMINED

# Recent Statutory Changes May Alter the Landscape

by Marcus J. Millet

A business client who intends to introduce a new product may find a patent owned by another party appears to cover the proposed product. If a product or process is covered by a valid patent, the manufacture, use or sale of the product within the United States without permission of the patent owner constitutes patent infringement.

**S**uch a situation poses a serious strategic problem, because an adverse judgment in a civil action for infringement can result in an injunction against the sale of the product, as well as an award of damages. Thus, the client's entire investment in the new product, and more, is at risk. A prudent client will seek an opinion from patent counsel regarding whether the proposed product or process would be held to infringe the patent, and whether the patent would be held invalid.<sup>1</sup> However, an opinion is a prediction of the outcome of litigation; it is not a guarantee.

Until now, there has not been a satisfactory way to test such an opinion in advance. In many cases, the only way for the client to find out if the opinion was correct is to go ahead with the investment required to make the product and wait for the patentee to sue for infringement. While the client may want to institute the litigation early, before all of the investment is at risk, there is normally no jurisdictional basis to do so. If the patent owner has threatened to bring an infringement suit,



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and if the client is actually prepared to make or sell the product, a declaratory judgment action in district court may be available. However, if the patentee simply refrains from making any such threat, a declaratory judgment action cannot be successfully maintained due to the absence of a legally cognizable case or controversy under Article III of the United States Constitution. Thus, the business client has been left with the unenviable choice of risking its investment, abandoning the project or acceding to the terms, if any, the patent owner may offer for a license.

A recently enacted change in the patent statute<sup>2</sup> offers a new alternative for a client faced with this choice. The new statute makes procedural changes in an existing administrative procedure known as *inter partes* reexamination. In some cases, the revised procedure will provide a reasonable way for the client to test the validity of a patent owned by another party, without the jurisdictional hurdles of the declaratory judgment route, and without the risks inherent in waiting for a suit by the patent owner.

### The Basics

As with most issues in patent law, reexamination focuses on the claims of the patent. The claims are the legal definition of the invention incorporated in the patent as required by statute.<sup>3</sup> It is the claims that define the metes and bounds of the invention, and the limits of the patent owner's right to exclude others from making, using, or selling the invention within the United States during the term of the patent.<sup>4</sup>

While the complexities of patent claim construction and interpretation are enough to fill treatises and shelves of published decisions, the basic rules for determining infringement and validity can be stated simply. If the product or process incorporates all of the elements recited in the claim, or legally cognizable equivalents of those elements, then the

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product or process infringes the claim. If the accused product or process lacks one or more elements or steps recited in the claim, it does not infringe the claim.

Conversely, if a single product or process made before the patentee's date of invention (referred to as prior art) includes each and every element or step included in the claim, the claim is anticipated, and hence is invalid under 35 U.S.C. Section 102. If two or more items of prior art taken together would have made it "obvious," to a person of "ordinary skill in the art" at the time of the invention to make a product or practice a process incorporating all of the elements or steps of the claim, then the claim is invalid under 35 U.S.C. Section 103.<sup>5</sup> Moreover, the patent specification must include a "written description" of the invention sufficiently to "enable" a skilled worker to practice the invention, and must teach the "best mode" of practicing the invention known to the inventor under 35 U.S.C. Section 112.

In a perfect patent system, there would never be an invalid patent claim. Applications for United States patents are examined by the Patent and Trademark Office (PTO) for compliance with legal requirements, including the requirements for novelty and non-obviousness, before the patent is granted. A PTO examiner

reviews the claims of the patent application and conducts a search for prior art using sources such as PTO databases and publicly available technical databases. The examiner is supposed to reject a claim that would be anticipated by the prior art or obvious over the prior art. Moreover, the patent applicant is obligated to tell the examiner about relevant prior art if the applicant is aware of its relevance during the application process.<sup>6</sup> During this examination, the patent applicant may amend his or her claims until the examiner is satisfied the claims are neither anticipated by the prior art nor obvious over the prior art. The initial examination process is an *ex parte* procedure; only the applicant is a party, and the public has no right to participate.

The patent examination process does not always work perfectly. Considerable technical understanding and search skills are required to locate the prior art pertinent to a highly technical invention. There are numerous examiners in the PTO, and they have varying levels of experience. Moreover, some of the pertinent prior art may be in obscure locations or in foreign languages, and some pertinent prior art may not be available in any public record during examination of a patent application.<sup>7</sup> Thus, it is possible for a patent to issue with claims that are invalid over prior art.

### Ex Parte Reexamination

Since 1981, the patent statute has permitted any person — either the patent owner or another party — to notify the PTO of newly found prior art patents and publications relevant to the claims of a patent, and ask the PTO to reexamine the claims of the patent in light of the newly found documents.<sup>8</sup> There is no requirement for a case or controversy, and hence no requirement for a threat by the patent owner.

However, examination under this statute is conducted on an *ex parte* basis, much like the original examination

process. If the person requesting reexamination is a person other than the patent owner, the requestor has no right to participate in the substantive examination process. The requestor's role ends when the requestor submits a paper with his or her interpretation of the prior art and the reasons why the prior art renders the claims invalid. If the PTO examiner initially adopts the requestor's position, and issues a rejection of one or more claims, the patent owner has the right to amend the claims to distinguish over the prior art; to submit arguments to the examiner; and to conduct personal interviews with the examiner to explain its position. The requestor has no right to rebut arguments made by the patent owner or to participate in interviews with the examiner. Further, in *ex parte* reexamination, the patent owner has the right to appeal from an unfavorable decision by the examiner to the PTO Board of Appeals and Interferences and to appeal from an unfavorable decision by the Board to the Court of Appeals for the Federal Circuit, the same court that reviews the holdings of United States District Courts in patent infringement litigation.

In short, *ex parte* reexamination is a forum favorable to the patent owner, and unfavorable to a party who wants to invalidate the patent. For that reason, *ex parte* reexamination is not widely regarded as a viable substitute for litigation if a significant amount of money is at risk.<sup>9</sup>

### **Inter partes Reexamination**

An alternative procedure referred to as *inter partes* reexamination was introduced in 1999. *Inter partes* reexamination was and is generally similar to *ex parte* reexamination in the initial stages. The requestor submits prior art patents and publications, and requests that the examiner review the claims of the patent in light of those documents. Here again, the patent owner has the right to amend the claims to distinguish over the prior art, and also has the right to present argu-

ments to the examiner. However, in an *inter partes* reexamination, the requestor has the right to reply to the comments made by the patent owner as, for example, to point out fallacies in the patent owner's arguments and to point out why the examiner should reject the claims.<sup>10</sup> PTO rules prohibit interviews concerning the merits in *inter partes* reexamination.<sup>11</sup> Thus, unlike *ex parte* reexamination, the procedure before the examiner is a symmetrical exchange of paper submissions by both sides to the examiner.

As originally enacted in 1999, however, the appeal procedure in *inter partes* reexamination was favorable to the patent owner. The statute allowed either party — the requestor or the patent owner — to take an administrative appeal to the PTO Board of Appeals and Interferences. However, only the patent owner had a right of appeal from the Board to the Federal Circuit Court of Appeals. Thus, a decision by the board holding the claims patentable was unreviewable.<sup>12</sup>

Moreover, the requestor is statutorily bound by the results of an *inter partes* reexamination. Thus, if a claim of a patent is held patentable in an *inter partes* reexamination procedure, the requestor cannot assert, as a defense to a later infringement suit, invalidity of that claim "on any ground which the third-party requestor raised or could have raised during the *inter partes* reexamination proceedings."<sup>13</sup> Additionally, the requestor is "estopped from challenging ... in any civil action any fact determined" during the process of an *inter partes* reexamination, except upon proof of error "based on information unavailable at the time of the *inter partes* reexamination decision."<sup>14</sup>

Thus, as initially enacted, the estoppel effect of an adverse *inter partes* reexamination decision by the board was akin to that of a final court decision against the requestor, but the requestor had no right of appeal to any court. In effect, the requestor committed his or her fate to the

board. The *inter partes* reexamination statute as initially enacted was almost never used; a grand total of seven requests for *inter partes* reexamination were filed between 1999 and the end of 2002.

### **The New Statute**

Effective November 2, 2002, the statute governing *inter partes* reexamination was amended to provide for full participation by the requestor in appeals to the courts. As before, if the examiner finds in favor of patentability, the requestor may appeal to the PTO Board of Appeals. Now, however, if the PTO Board of Appeals affirms the finding of patentability or reverses an examiner's finding of unpatentability, the requestor may appeal from that decision to the Federal Circuit. Also, if the patent owner brings an appeal to the court from a decision unfavorable to patentability, the requestor may participate as a party in such appeal.<sup>15</sup> For the first time, the *inter partes* reexamination statute provides for full participation by a requestor at all stages of the proceedings.

Given that change, patent practitioners are beginning to consider *inter partes* reexamination as a useful alternative to district court litigation in some cases. In particular, some practitioners are beginning to consider *inter partes* reexamination as a viable way to resolve the problems posed by patents that appear to cover proposed new products. However, there are several factors that must be considered in deciding whether or not to use this procedure.

### **Too New For You?**

A very significant factor weighing against a decision to institute *inter partes* reexamination is the novelty of the procedure. As of this writing, only 25 *inter partes* reexamination proceedings have been instituted, and none has gone to completion (issuance of a reexamination certificate). There has not been a single reported court or administrative

decision directly interpreting the *inter partes* reexamination statute. For example, the only available guidance as to the scope of the estoppels arising from the procedure comes from the legislative history and the plain text of the statute. In this environment, counsel may be hesitant to invoke this procedure in a do or die situation. Instead, we are likely to see progressively greater use of these provisions as an alternative to litigation in matters of progressively greater value.

### Presumption and Fact Finder

From the point of view of the party challenging validity, perhaps the most significant factor in favor of *inter partes* reexamination is that in litigation before the district court, a patent claim is presumed valid, and the party asserting invalidity has the burden of providing all of the facts necessary to establish invalidity by clear and convincing evidence.<sup>16</sup> The presumption and the burden of proof are accentuated by the fact that, in a district court litigation, the trier of fact may be a jury of lay individuals, unused to dealing with technical matters and entirely unfamiliar with the requirements for patentability. At trial, the patentee's arguments that patentability of the claims was already considered by an expert government official is reinforced by the judge's charge as to the presumption of validity and the need for clear and convincing evidence to establish invalidity. It is difficult to overstate the combined impact of these factors on validity challenges in district court litigation. Suffice it to say that these factors weigh strongly against a holding of invalidity based on prior art in district court litigation.

By contrast, *inter partes* reexamination proceedings almost certainly will not involve a presumption of validity. *Ex parte* reexamination proceedings do not involve such a presumption.<sup>17</sup> The statutory language covering this aspect

of procedure in *inter partes* reexamination is identical to the statutory language governing *ex parte* reexamination procedure relied upon by the court in *Etter*, and thus the same result is expected to apply.<sup>18</sup>

Of at least equal importance, the fact finder in reexamination is a patent examiner or, on appeal to the board, a panel of three administrative patent judges. These individuals' daily work involves rejecting claims on the basis of prior art. A technical prior art defense, based on close reading of obscure passages in reference patents, would be expected to have far greater appeal to a patent examiner or a board member than to a lay jury.

Moreover, claims in *inter partes* reexamination almost certainly will be given their broadest reasonable claim construction, at least at the Federal Circuit level. This is the standard applied in initial examination and in *ex parte* reexamination.<sup>19</sup> A broad construction of the patent claim makes it easier to invalidate the claim, and may require the patentee to narrow its claims, thus making it easier to avoid infringement. Here again, regardless of the formal standard to be applied on appellate review, patent examiners routinely interpret claims and routinely insist on explicit language in the text of the claim itself supporting any supposed distinction between the claim and the prior art.

### A Partial Forum

Reexamination proceedings, including *inter partes* reexamination, are limited only to consideration of prior art patents and printed publications.<sup>20</sup> The prior art, which can be used to invalidate a patent claim in a district court, includes unpublished items of prior art such as public uses and sales of the invention or a similar invention. Such non-published prior art simply cannot be considered in a reexamination proceeding. Moreover, grounds for invalidity

other than anticipation or obviousness over the prior art, such as indefiniteness of the claims or an inadequate specification, likewise cannot be raised in a reexamination proceeding.<sup>21</sup>

The scope of reexamination proceedings is further limited by the requirement that the patents and publications raise a "substantial new question of patentability," *i.e.*, a question not previously considered. However, that requirement has been significantly relaxed; almost anything other than a recapitulation of rejections and arguments made during earlier examination apparently will constitute a substantial new question under current law.<sup>22</sup>

The limitations on the scope of reexamination, however, also limit the scope of the estoppels arising from reexamination. For example, if a party believes that an adverse patent is invalid over prior patents and publications, and is additionally invalid as anticipated by prior public use or sale, the party can bring an *inter partes* reexamination based on the prior publications. The party will not be estopped in later district court litigation from asserting that the patent claim is invalid over the prior public use or sale, because such is not a ground which could have been raised in the reexamination proceeding.

The issue of whether a product or process infringes or does not infringe the patent claims cannot be considered directly in reexamination. However, the arguments and references presented in *inter partes* reexamination may force the patentee to narrow the scope of the patent claims by adding a new element to the claim that is not present in the product. In this case, the product will be held not to infringe the claim if the patentee brings a later district court action for infringement. Even if the claims are not expressly amended, the patentee can be forced to make statements on the record construing the patent claims. These statements will become part of

the record used in claim construction in any subsequent district court infringement litigation. The party requesting reexamination can lose the battle for validity of the claims before the PTO, but win the war for ultimate liability for infringement. Moreover, if the patentee is forced to make substantive amendments to all of the claims, the party adverse to the patent may entirely avoid liability for infringement occurring before issuance of a reexamination certificate and may be able to avoid issuance of an injunction against continued manufacture or sale of the product, even if the product is ultimately held to infringe an amended claim which survived in reexamination.<sup>23</sup>

### Cost

*Inter partes* reexamination is a far simpler and cheaper procedure than district court litigation.<sup>24</sup> It is conducted entirely on the paper record — the text of the patent itself and the text of the prior art references. There is no oral testimony, or even oral argument, before the examiner; interviews with an examiner are flatly prohibited in *inter partes* reexamination.<sup>25</sup> The only opportunity for oral advocacy is an oral hearing before the Board of Appeals and Interferences, where both sides may appear to present arguments based on the written record, and oral argument at the Federal Circuit if a further appeal is taken.<sup>26</sup> There is no discovery in reexamination.

All of these factors make reexamination considerably cheaper than district court litigation. Patent litigation is sometimes referred to as the sport of kings, given its substantial cost. A typical district court patent litigation with \$1,000,000 to \$25,000,000 at risk costs a litigant on the order of \$1,500,000, exclusive of costs for appeal.<sup>27</sup> While there are no comparable statistics for *inter partes* reexamination, roughly comparable PTO procedures commonly cost about \$100,000 per side.<sup>28</sup> This fac-

tor alone may be dispositive for the smaller client.

As mentioned above, an *inter partes* reexamination can be initiated early, before the party seeking to challenge the patent has made a significant investment. Unfortunately, the *inter partes* reexamination proceeding (including appeals) may not be completed in time to allow timely introduction of the product. The PTO goal for pendency of reexamination proceedings is 21 months, but some *ex parte* proceedings have taken several years to complete. This time is considerably longer than the speedier court dockets.

### The Patentee's Side

The discussion above has been given from the point of view of the party seeking to avoid liability for infringement. Manifestly, the patent owner seeking to secure a judgment of infringement needs to be aware that his or her opponent may use *inter partes* reexamination. If the patent owner wants to keep the validity issue in a district court, it may be advisable for the patent owner to institute an action for infringement at the earliest possible moment. The PTO has discretion to stay an *inter partes* reexamination proceeding if litigation is pending.<sup>29</sup> The likelihood of such a stay probably will be enhanced if the litigation is well along before the reexamination request is received.

Perhaps the best measure a patent owner can use to avoid a successful *inter partes* reexamination, however, is to prosecute patents carefully and thoroughly in the first place, with the best possible knowledge of the prior art. In some circumstances, it may be desirable for the patent applicant to go beyond the duty to inform the examiner of prior art and actually postulate issues raised by the prior art so the issues an opponent may use as the basis of a reexamination are fully addressed during the original examination.

In sum, the newly strengthened *inter partes* reexamination statute presents an option that should be carefully considered by attorneys and their business clients. ☺

### Endnotes

1. Additionally, if the client is aware of adverse patents that appear relevant to the proposed new product and simply disregards the rights of the patentee, the client can be held to have *willfully* infringed the patent, and can be liable for enhanced damages, as well as the patentee's attorney's fees, if the product is ultimately held to infringe the patent.
2. P.L. 107-273, §§ 13105 and 13106, effective November 2, 2002.
3. 35 U.S.C. § 112, second ¶.
4. The patent owner also has the right to exclude others from importing the invention into the United States or offering the invention for sale within the United States, and, if the invention is a process, the right to exclude others from importing the product made by the process in some circumstances. 35 U.S.C. §§ 154(a)(1) and 271.
5. The person of ordinary skill in the art is a theoretical construct, much like the "reasonable and prudent person" in the law of negligence, except the person of ordinary skill in the art has the same level of skill and education as the engineers and scientists who work in the field of technology related to the invention, and has theoretically perfect knowledge of all of the prior art in this technical field.
6. 37 C.F.R. § 1.56.
7. For example, a U.S. patent application filed today typically will be published 18 months from today. Such a patent application can be legally available as prior art against another patent application filed tomorrow. However, the application filed tomorrow may be granted as a patent before the application

- filed today is published. In that case, the examiner in the application filed tomorrow may never learn of the application filed today. See 35 U.S.C. § 102(e).
8. 35 U.S.C. §§ 301-307.
  9. A patent owner often will request *ex parte* reexamination of its own patent if the patent owner becomes aware of additional prior art after the patent issues. If the claims are held patentable over the new prior art, it becomes more difficult for an adverse party to win a judgment of invalidity based on the same prior art in a later litigation. Also, parties other than patent owners have used *ex parte* reexamination as an adjunct to litigation or as a substitute for litigation where the amount at stake is too small to justify the cost of litigation.
  10. 35 U.S.C. §§ 311-314.
  11. 37 C.F.R. § 1.955.
  12. 35 U.S.C. § 315 (1999).
  13. 35 U.S.C. § 315(c). This estoppel does not preclude assertions of invalidity "based on newly discovered prior art unavailable to the third-party requestor and the [PTO] at the time of the *inter partes* reexamination proceedings."
  14. P.L. 116-113, § 46007 (uncodified).
  15. 35 U.S.C. § 315(b) as amended, P.L. 107-273, § 13106.
  16. 35 U.S.C. § 282; e.g., *Juicy Whip, Inc. v. Orange Bang, Inc.*, 292 F.3d 728 (Fed. Cir. 2002).
  17. *In re Etter*, 756 F.2d 852 (Fed. Cir. 1985) (*en banc*).
  18. In both cases, reexamination is to be conducted "according to the procedures established for initial examination of a patent application." 35 U.S.C. §§ 313 and 305.
  19. See *In re Yamamoto*, 740 F.2d 1569, 1571 (Fed. Cir. 1984).
  20. 35 U.S.C. §§ 311 and 301.
  21. **There is limited exception in that, if the patent owner amends the claims, the amended claims will be considered for compliance with the requirements of § 112.**
  22. The courts had interpreted the requirement for a substantial new question as precluding any rejection in reexamination based solely on prior art references that had been considered by the examiner. For example, where the examiner had made a rejection on reference A alone and a separate rejection on reference B alone, a new rejection on reference A in combination with reference B could not be imposed in reexamination. *In re Portola Packaging*, 110 F.3d 786, 791 (Fed. Cir. 1997). That result, however, has been legislatively overruled. "The existence of a substantial new question of patentability is not precluded by the fact that a patent or

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- printed publication was previously cited by or to the Office or considered by the Office." 35 U.S.C. §§ 303(a) and 312(a) as amended, P.L. 107-273 § 13105. Thus, the requirements for a substantial new question have been liberalized significantly. Indeed, the PTO takes the view that even a "material new argument or interpretation" of a reference previously applied by the examiner can raise a substantial new question of patentability. See *Revised guidelines for usage of previously cited/considered prior art in reexamination proceedings*, June 6, 2003; <http://www.uspto.gov/web/offices/pac/dapp/opla/treognotice/portolarev.html>.
23. See 35 U.S.C. §§ 316 and 252.
24. Revised guidelines for usage of previously cited/considered prior art in reexamination proceedings, June 6, 2003; <http://www.uspto.gov/web/offices/pac/dapp/opla/treognotice/portolarev.html>.
25. 37 C.F.R. § 1.955.
26. In both cases, reexamination is to be conducted "according to the procedures established for initial examination of a patent application." 35 U.S.C. §§ 313 and 305.
27. American Intellectual Property Law Association Report of Economic Survey, 2001.
28. Cost of two-party interference through motion period, as also reported in the American Intellectual Property Law Association Report of Economic Survey, 2001.
29. 37 C.F.R. § 1.987; Compare 35 U.S.C. § 314(c) with 35 U.S.C. § 305 ("special dispatch" discretionary in *inter partes* reexamination).
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