

Reexamination: Can Patent Reform Help?

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The BlackBerry® litigation, *NTP v. RIM*, resulted in multiple reexaminations that have not been resolved years after the lawsuit settled.¹ The NTP reexaminations illustrate the inefficiency of the current patent reexamination process. Modifications to reexamination practice before the U.S. Patent and Trademark Office (USPTO) have been proposed in the latest version of the Patent Reform Act of 2009, Senate Bill 515.² These changes were proposed to meet Congress' and the previous USPTO administration's goal to "provide a more efficient mechanism to challenge patents that should have not issued."³ The current USPTO administration is reevaluating patent reform provisions and is expected to provide a new set of proposals to Congress for patent reform.⁴ Here we review the problem of excessive pendency along with other perceived shortcomings in reexamination, the expected effect of significant S. 515 reexamination provisions, including replacing examiners with Administrative Patent Judges (APJs), and other changes that might be proposed for reexamination.

I. Shortcomings of Reexamination

Reexamination is a procedure by which an issued patent can be challenged. The procedure is currently performed by examiners in the USPTO. It was initially intended as a reasonable cost-limited administrative alternative to litigating the validity of a patent. The requester can challenge a patent in the reexamination process by requesting either *ex parte* reexamination (between the patentee and the USPTO) or *inter partes* reexamination (where both the requester and the patentee continue to be involved in the USPTO proceedings).⁵ Three perceived shortcomings of these reexamination proceedings are examined below.

A. Pendency Excessive for a Litigation Alternative

Currently, district courts do not stay litigation in many cases for reexamination due to a two to three year delay caused by reexamination proceedings.⁶ Competition exists among district courts to complete patent litigation within one year; these are the so-called "rocket dockets." For these venues, a stay of two to three years needed for reexamination likely will be unacceptable. In addition, the primary purpose of Congress' reexamination reform is to minimize litigation costs.⁷ But without a court-imposed stay the cost of reexamination will be cumulative to litigation costs, thereby thwarting Congressional intent.

On the other hand, a delay of approximately three years for an *inter partes* reexamination⁸ or the shorter approximate delay of two years for *ex parte* reexamination⁹ might be considered reasonable. These processes seem long, but to provide for even a standard examination the PTO generally requires four months to issue an office action and applicants are typically allowed three months to respond to the office action.¹⁰ As a result an examination with two office actions takes at least a year. But a delay of even a year is unacceptable if the reexamination process is to function as an alternative to litigation. Accordingly, changes are required to reduce reexamination pendency to less than one year.

B. Limited Use

Ex parte reexamination has been available since 1981 or nearly 30 years, with 10,066 total reexaminations filed up to June 30, 2009.¹¹ This amounts to an average of approximately 350 reexamination cases per year. That is less than 0.25% of the current total of approximately

158,000 patents issuing per year in the last two years.¹² The number of *inter partes* reexamination filings is even lower, with on average less than 70 cases per year since it began in 1999.¹³ In contrast, the average use of patent opposition proceedings in Europe is approximately 6% of the patents issuing.¹⁴ Based on these statistics, the number of U.S. reexaminations appears to be exceedingly low.

Statistical comparison of reexaminations to all issued patents may be flawed, however, because the comparison ignores the importance of the patents reexamined. A better comparison factor might be to lawsuits filed, because lawsuits highlight economically valuable patents.¹⁵ The number of patent lawsuits per year from 1989 to 1998 was approximately 1,000.¹⁶ This indicates that approximately 0.6% of issued patents were litigated. Compared to the approximately 10,000 lawsuits filed between 1989 and 1998, the 3,563 reexaminations filed from 1989 to 1998 represent 36% of patent litigations.¹⁷ This comparison suggests that the number of reexaminations is not unreasonably low and reinforces the argument that comparing the number of reexaminations to all patents issued may be logically flawed.

As noted above, 6% of all European patents issued are opposed, which indicates that U.S. reexamination filings are exceptionally low compared to European oppositions. But the statistical comparison to Europe might not be relevant. European opposition offers a common forum to challenge validity, as opposed to litigation in multiple countries throughout Europe. U.S. patent litigation, of course, is not done state-by-state. So, pursuing reexamination in a single forum as an alternative to multi-forum litigation is not a consideration in the U.S.

C. Standard for Granting Reexamination Too Low to Prevent Abuse

The threshold determined by the USPTO that will indicate whether a reexamination will be ordered after a request is filed is whether a Substantial New Question of Patentability (SNQP) exists.¹⁸ Whether this SNQP threshold standard is set too low remains an issue. A SNQP is found by the PTO in over 90% of all reexamination requests filed. A SNQP is found for 92% of requests for *ex parte* reexaminations.¹⁹ For *inter partes* reexaminations the SNQP rate is even higher at 95%.²⁰ Such high rates of granting a SNQP encourages a defendant who primarily wants to delay litigation to readily file for reexamination and demand a stay to obtain the delay. Also, the high rate of finding a SNQP encourages a third party who primarily desires to harass a patent owner to pursue unreasonable reexaminations.

Increasing the SNQP standard may be warranted to reduce the over 90% grant rate. In reports to Congress for consideration in enacting patent reform legislation, a view has been espoused that the over 90% grant rate is too high for a threshold that acts to protect patentees “from having to respond to, or participate in unjustified reexaminations.”²¹ A more recent commentator agreed, stating “[a]nd by itself, the speed of the reexamination order offers little advantage over litigation; the test for ordering reexamination – ‘a substantial new question of patentability’ – is so broad, a reexamination order by itself has little substantive import.”²²

The use of statistics to indicate an over 90% SNQP determination rate as unreasonably high, however, might be logically flawed. This argument is similar to the argument that statistics indicating a 0.25% filing rate relative to the number of patents issued is unreasonably low. The 90% acceptance rate for a SNQP is applied to the approximately 400 reexamination requests filed each year, not to every patent issued. For a third party requester, there is a substantial risk to filing unwarranted reexamination requests. The third party requester can be exposing himself to a risk that the patent owner will sue in response. The third party requester in *inter partes* reexamination is also taking a chance that estoppel will be applied to prevent an invalidity argument in court based on the same reference considered in the reexamination.²³ Accordingly, the SNQP number might be considered reasonable.

Considering the advantage that reexamination can provide in litigation, the temptation of abusing reexamination may still warrant steps to lower the rate of finding an SNQP from 90% even if the number is statistically reasonable. The number of filings of reexaminations in response to filings in district court of patent infringement proceedings and the increasing numbers of stays that courts are issuing all testify to the enormous tactical advantage that reexamination represents to defendants.²⁴ The reexamination process has become a one-two combination punch: if the court issues a stay, then the potentially infringing defendant has (1) at least minimized and delayed his litigation costs, while (2) maintaining a forum with the power to cancel one or more of the patent claims. The concurrent reexamination may also prove worthwhile at the appellate phase even if the court does not stay the litigation.²⁵

II. Proposed Patent Reform Changes

Significant changes in S. 515 relate primarily to *inter partes* reexamination practice and include: (1) having *inter partes* reexaminations heard by an administrative patent judge (APJ); and (2) prohibiting *inter partes* reexamination once a final judgment is entered by a district court.²⁶ We consider whether these patent reform legislation provisions as well as a change to the SNQP standard for ordering reexamination will address the shortcomings discussed above.

A. Administrative Patent Judge

At first glance, the S. 515 provision of appointing an APJ does not appear to improve the reexamination process. The USPTO already has a specialized central reexamination unit (“CRU”) to handle reexaminations. The CRU has 58 examiners, with an average experience level of over 18 years.²⁷ Replacing these highly experienced CRU examiners with APJs does not appear to be more efficient. However, considering the average of a more than three-year pendency for *inter partes* reexaminations, some change is required to encourage stays in litigation in “rocket docket” jurisdictions. A significant time savings could result from eliminating the examination performed by the CRU examiners and replacing it with an adversarial proceeding with an APJ who only rules on matters raised and does not reexamine the application.

Included in the over three-year pendency of *inter partes* reexaminations is the limited 30 to 60 day response period provided to the patent owners and requesters, whereas the USPTO response time is not fixed.²⁸ The USPTO’s delay thus causes most of the reexamination delay.

With an APJ procedure set according to S. 515, the requester and patent owner would each file contentions and remarks within a two-month time period.²⁹ If the APJ could then rule on these contentions within two months, the proceedings could be terminated within six months. Although some proposals allow the APJ discretion to send the case to an examiner,³⁰ to maintain a six-month average we recommend that further examination be provided only through reissue. Reissue is the process that currently can be used to terminate reexamination proceedings if claim amendments are needed but no longer allowed in reexamination.³¹ Because any amendments may arguably justify an examination, particularly to consider 35 U.S.C. § 103 issues, we suggest under one scenario that 35 U.S.C. § 314(a) be amended so that the APJ does not consider the merits of any patentee amendments to the claims. The patentee would be left to resolve through the reissue procedure, after surrender of the patent, whether amended claims would be allowed. Such an APJ procedure could result in significant timesavings. If APJ actions could be resolved in six months, the incentive for a district court to stay proceedings would be significantly enhanced.

B. District Court Judgment or Settlement Terminating Reexamination

The S. 515 provision prohibiting *inter partes* reexamination once a final judgment is entered by a district court will also address reexamination pendency.³² Over 65% of all *inter partes* reexaminations are involved in litigation.³³ However, the majority of district court actions settle before a final judgment is entered. With on average less than 70 *inter partes* reexaminations filed per year, prohibiting those *inter partes* reexaminations with a district court judgment will likely have minimal impact, perhaps affecting one or two reexaminations per year.

Terminating reexamination proceedings upon settlement might provide a better alternative. Ending reexamination upon settlement is proposed in patent reform legislation for the new post-grant review.³⁴ Storied cases like *NTP v. RIM*, that have resulted in multiple reexaminations that continued for years after litigation settled, show that this alternative might significantly reduce reexamination pendency. However, terminating reexamination proceedings upon settlement gives the litigants power to leave patentability issues unresolved. Potentially invalid patents remaining valid would not be in the public's interest. But invalidity issues raised in litigation similarly remain unresolved upon settlement of the litigation. Thus, whether to include such a settlement provision in patent reform legislation will require balancing the public's interest against the burden on the patent office.

C. Changing the Standard for a Substantial New Question of Patentability

Although S. 515 does not address the threshold for determining a SNQP, a provision could be introduced to raise the standard for a SNQP to reduce the over 90% finding rate in order to prevent abuse. This could be accomplished by reintroducing the presumption of validity or by otherwise imposing a higher threshold criterion for the SNQP.

Still, if the threshold for a SNQP standard is raised, a problem remains: there is no mechanism by which a patent owner can appeal if a finding of a SNQP is made. The question of whether a SNQP is raised is currently policed internally by the USPTO. In fact the reexamination process itself is typically relied upon by both the USPTO and the patent owner to resolve whether the SNQP determination was incorrect. As Chisum points out for determination of a SNQP, “[t]he object is to determine whether a new question has been raised not to resolve that question.”³⁵ Once the reexamination portion begins, the patentee must rebut that question, and can actually do so in 25% of the instances.³⁶

Even in an *ex parte* reexamination where the patent owner does have the ability to respond to the granting of a SNQP, the PTO procedure discourages objection to a finding of a SNQP. This is because in *ex parte* reexamination, a response by the patent owner to the SNQP determination allows the requester to also enter a response.³⁷ Since the patent owner usually desires *ex parte* reexamination to avoid comments from a requester, the patent owner is motivated to not enter a response to the SNQP grant and wait to enter any comment until a first office action response. Thus, a mechanism by which a patent owner could potentially reduce the grant rate of the SNQP is typically bypassed to prevent further empowering the requester.

But steps to increase the threshold for a SNQP rate, such as use of the presumption of validity in reexamination proceedings, have continually been left out of legislation. Currently the original patent examiner is given no deference in reexamination as opposed to the presumption of validity that is applied to a patent when invalidity is asserted as a defense in litigation.³⁸ Some deference to the original patent examiner, at least to the degree the question is cumulative to the question already considered by the original examiner, could lower the rate at which a SNQP is granted.

III. Conclusion

In summary, Congress' goal "to provide a more efficient mechanism to challenge patents that should have not issued" could be realized by introducing an APJ to provide a reexamination process with a limited pendency of six months. If the APJ does not examine cases and relies upon the opposing parties to brief the issues, a significant timesaving process could result. The S. 515 provision prohibiting reexamination after a district court judgment, or a similar provision to prohibit reexamination after litigation settlement, enacted together with the use of an APJ, could further address the problem of pendency. To prevent abuse of the reexamination process, Congress should further consider steps to raise the standard for granting reexamination requests, such as introducing a presumption of validity.

¹ McKeown, S., *NTP v. RIM: The Ghost of Christmas Past*, BNA's Patent, Trademark & Copyright Journal, Nov. 27, 2009 (*NTP v. RIM* settled for \$612 million in 2006, and only as recently as Nov. 2009 the Board of Patent Appeals and Interferences issued decisions on appeals in some of these reexaminations).

² *Patent Reform Act of 2009*, S. 515, 111th Cong. § 5, 35 U.S.C. § 322, <http://judiciary.senate.gov/legislation/111thCongress.cfm>, as reported by Senator Leahy April 2, 2009, accessed January 25, 2010.

³ Senator Leahy, Committee on the Judiciary Report on the Patent Reform Act of 2009 filed May 12, 2009, (available at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_reports&docid=f:sr018.pdf), at 16, Date of access, January 25, 2010.

⁴ Robert Stoll, Patent Commissioner, comment made at a presentation during the 34th Annual Intellectual Property Institute at Dana Point, California, November 12, 2009.

⁵ MPEP §§ 2202, 2214 and 2600 (8th Edition, August 2001, revised July 2008).

⁶ Smith, Matthew, *Stays Pending Reexamination*, PatentlyO, Nov. 1, 2009, <http://www.patentlyo.com/patent/2009/11/the-following-guest-post-is-by-matthew-smith-the-grant-rate-of-motions-to-stay-is-highly-judge-dependent-and-somewhat-less-ob.html>, accessed January 25, 2010.

⁷ Committee Report by Senator Leahy, *supra* note 3.

⁸ *Inter Partes* Reexamination Filing Data, USPTO Report, June 30, 2009, http://www.uspto.gov/web/patents/documents/inter_partes.pdf, accessed January 25, 2010.

⁹ *Ex Parte* Reexamination Filing Data, USPTO Report, June 30, 2009, www.uspto.gov/web/patents/documents/ex_parte.pdf, accessed January 25, 2010.

¹⁰ MPEP 710.02(b); American Inventor's Protection Act of 1999 (AIPA) allowing PTO Examiners four months.

¹¹ *Ex Parte* Reexamination, *supra* note 9.

¹² USPTO Table of Issue Years and Patent Numbers for Selected Document Types Issued Since 1836, <http://www.uspto.gov/patents/process/search/issuyear.jsp>, years 2009 and 2008, accessed January 25, 2010.

¹³ *Inter Partes* Reexamination, *supra* note 8.

¹⁴ European Patent Office website, *Revision of the EPC: limitation procedure*, [http://documents.epo.org/projects/babylon/eponet.nsf/0/17CCA144861F7BC0C12572800038E805/\\$File/capl_9902_9_en.pdf](http://documents.epo.org/projects/babylon/eponet.nsf/0/17CCA144861F7BC0C12572800038E805/$File/capl_9902_9_en.pdf), August 11, 1999, accessed January 25, 2010.

¹⁵ Allison, J.R. et al., *Valuable Patents*, The Georgetown Law Journal, Vol. 92, Issue 3, March 2004.

¹⁶ Meurer, M. et al., *The Patent Litigation Explosion*, paper 57, American Law & Economics Association Annual Meetings, 2005, available at <http://law.bepress.com/cgi/viewcontent.cgi?article=1532&context=alea>, see Figure 1 on page 32, accessed January 25, 2010.

¹⁷ *Ex Parte* Reexamination, *supra* note 9; although the number increased from less than 800 in 1984 to 2800 in 2007, this increase (71%) is in line with the increase in issued patents (67,000 to 157,000 or 57%) over the same time period (based on the 2007 Annual Report of the Director, approximately 2,800 patents were asserted in litigation in 2007). Duff, J.C., *Judicial Business of the United States Courts*, <http://www.uscourts.gov/judbus2007/JudicialBusinesspdfversion.pdf>, accessed January 25, 2010.

¹⁸ 37 C.F.R. §§ 1.510, 1.923.

¹⁹ *Ex Parte* Reexamination, *supra* note 9.

²⁰ *Inter Partes* Reexamination, *supra* note 8.

²¹ H.R. Rep No 96-1307, 96th Cong., 2d Sess. (1980) at 7 (reprinted in 1980 U.S.C.C.A.N. 6460).

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- ²² Cohen, Joseph, *What's Really Happening In Inter Partes Reexamination*, 2005, www.stoel.com/Files/InterPartes.pdf, section 3.1, accessed January 25, 2010.
- ²³ 35 U.S.C. § 315(c).
- ²⁴ See *Stays Pending Reexamination*, *supra* note 6.
- ²⁵ See *Translogic v Hitachi*, 2007 WL 2973955, *1 (Fed. Cir. 2008) (unpublished).
- ²⁶ S. 515, *supra* note 2, § 5, proposed amendments to 35 U.S.C. §§ 314, 317(b).
- ²⁷ MPEP § 2637; Sterne, Robert, *Optimizing Reexamination Patent Strategy at the U.S. Patent Office for your IP Business Model*, LES USA/Canada Annual Meeting, October 21, 2008, <http://www.skgf.com/media.php?NewsID=480>, accessed January 25, 2010.
- ²⁸ 37 C.F.R. §§ 1.525-1-550; 37 C.F.R. §§ 1.935-1-947.
- ²⁹ S. 515, *supra* note 2, § 5, proposed amendments to 35 U.S.C. § 314(2).
- ³⁰ Wegner, Harold, *Patent Reform Quality and Pendency*, preliminary paper prepared for “PTO Reform” academic symposium to be sponsored by the Stanford Technology Law Review, Stanford University Law School on February 26, 2010 (available at <http://www.grayonclaims.com/storage/StanfordFeb26versJan18.pdf> and accessed January 27, 2010), p. 14
- ³¹ 37 C.F.R. §§ 1.570(e), 1.997(e).
- ³² S. 515, *supra* note 2, § 5, proposed amendments to 35 U.S.C. § 317(b).
- ³³ *Inter Partes* Reexamination, *supra* note 8.
- ³⁴ S 515, proposed new 35 U.S.C. § 332.
- ³⁵ Chisum on Patents, Lexis, ISBN: 9780820515250, Chapter 11, 11-756.
- ³⁶ *Ex Parte* Reexamination, *supra* note 9.
- ³⁷ 37 C.F.R. § 1.535.
- ³⁸ See *In re Etter*, 756 F.2d 852, 225 USPQ 1 (Fed. Cir. 1985)(no presumption of validity in reexamination); 35 U.S.C. § 282.