

# United States

## Re-examination: a dagger and a shield for impacting on IP value

Re-examination of a granted US patent can be a powerful procedural weapon that can galvanise or destroy a patent's value. Everyone responsible for driving a company's return on research and development investment should be familiar with its power. A recent study by The BTI Consulting Group, Inc highlighted the need for top management to embrace cost-control as a risk management tool. Re-examination can be part of an effective cost-control strategy for risk management when dealing with IP issues. Third parties can use re-examination to attack a competitor's valued patent and patent owners can use re-examination to strengthen a patent's armour and render it more impervious to attack. Thus, re-examination has achieved prominence as a weapon which can directly impact on the market value of a company's IP portfolio.

### Statistics

US Patent and Trademark Office (USPTO) records confirm that the number of re-examination proceedings has dramatically increased. The annual number of re-examination filings has risen by over 300 per cent since 2002 (from 150 total filings in 2002 to 680 total filings in 2008), and there are many reasons for this surge. For example, the increase followed the introduction in 1999 of a new form of re-examination proceeding allowing greater participation by a third-party re-examination requester. In addition, as of 2002 all re-examination proceedings can be directly appealed from the USPTO to the Court of Appeals for the Federal Circuit (CAFC), making re-examination a viable tactical consideration. The CAFC hears all patent appeals from district court proceedings around the country regarding any patent matter. The continued increase in re-examination filings also followed the Supreme Court's decision in *KSR International Co v Teleflex Inc* (127 S Ct 1727 (2007)), which clarified the test to be used for assessing the obviousness of an invention. This decision has resulted in a more stringent review of pending patent claims under examination, or re-examination, by the USPTO.

Regardless of the reason, it seems clear that the role of re-examination as a tactical weapon has become more widely recognised. Based on data regarding re-examination filings in 2009, this upward trend is likely to continue.

### Re-examination process

This multifaceted weapon is embodied as an administrative proceeding conducted by the USPTO. Each request for re-examination is assigned to a special programme re-examination examiner at the USPTO.

### Timing

Re-examination proceedings are required by statute to be conducted with "special dispatch" (35 USC §305; 37 CFR §1.550).

The actual time taken to resolve a re-examination can be driven by many factors, such as the importance of the patent in the relevant market. The new USPTO administration is expected to address any issues due to internal administrative delay in an effort to make re-examination an even more desirable tool in future. In October 2009 newly appointed USPTO Director David Kappos commented publicly on the desired goal of having post-grant proceedings such as re-examination completed within a one-year period.

Even where a re-examination does not proceed quickly, it can prove extremely useful in helping to establish leverage for avoiding litigation or enhancing the speed with which litigation is settled. Re-examination can also prove valuable in steering a company's product development and may provide leverage for licensing negotiations. For example, the filing of a re-examination can slow or even stop the costly US litigation discovery process, and provide parties with an opportunity to re-evaluate settlement where a patent's validity is in question.

### Types of re-examination

There are two types of re-examination proceedings:

*ex parte* re-examination and *inter partes* re-examination. *Ex parte* re-examination can be brought by the patent owner or by a potentially anonymous third party without having to identify the real party in interest (but this is limited to early-stage third-party participation). *Inter partes* re-examination can be brought only by a disclosed third party (the real party in interest must be identified), with expanded third-party participation at all stages. It provides statutory estoppel against subsequent review of issues that were raised or could have been raised in the re-examination proceeding.

#### Content of request

A request for re-examination of a US patent can be made by any person at any time during the enforceability of the patent (35 USC §302; 37 CFR §1.510). A re-examination request must be made on the basis of prior art patents or printed publications, and the proceeding is limited to consideration of the patent's validity.

The request for re-examination must include a statement which points out each substantial new question of patentability based on the prior patents or printed publications relied upon. A substantial new question of patentability can exist even in cases where the prior art or publications relied upon were previously cited and considered by the examiner during the original prosecution. Section 303(a) of Title 35 of the US Code specifically states that the "existence of a substantial new question of patentability is not precluded by the fact that a patent or printed publication was previously cited by or to the Office or considered by the Office".

In addition, where a federal court previously found that a defendant challenging a patent's validity had not met the burden of proof, the USPTO can still later find the patent to be invalid in a re-examination proceeding.

A substantial new question of patentability can be raised by prior art or printed publications, even if the documents relied on would not necessarily result in the examiner rejecting any claim of the patent under re-examination. The prior art patents or printed publications will be deemed sufficient to grant a re-examination request where they raise a substantial likelihood that a reasonable examiner would consider the information important in deciding whether a claim of the patent is patentable. Prior art patents or printed publications will not be deemed to satisfy this criteria where the same question of patentability has already resulted in a final holding of invalidity by a federal court or by the USPTO in a prior examination, or where the examiner deems the information merely cumulative to art already considered in a prior examination.

#### *Ex parte* re-examination requests by patent owner

Where a patent owner requests *ex parte* re-examination, the request can point out how previously granted claims distinguish over newly discovered prior art. If re-examination is opened, the proceeding is conducted exclusively between the patent owner and the USPTO. Once the newly discovered prior art has been formally considered, it can be difficult for third parties to assert later that claims of the re-examined patent should be deemed invalid over the same art or over any later discovered art which is cumulative to the art considered. This procedure can enhance the patent's armour and its ability to fend off later validity attacks in courts.

During re-examination, an amendment may be submitted by the patent owner to better distinguish the claims over the prior art. However, where claims in a re-examined patent are amended, the doctrine of intervening rights can apply. According to this doctrine, a patent owner that amends all claims during re-examination may forgo damages for infringing activity before issuance of the re-examination certificate.

#### *Ex parte* re-examination requests by third party

Where an *ex parte* re-examination request is filed by a third party, the request must be served on the patent owner in its entirety. The patent owner is given an initial opportunity to submit a formal statement before any decision by the examiner as to whether to open the re-examination. Where the patent owner files such a statement, the third-party requester can file a response.

A determination is then made as to whether a substantial new question of patentability exists that would warrant opening the re-examination. Where an *ex parte* re-examination is opened, a third party's involvement ends with, at most, the reply to a patent owner's statement (if filed). From then on, the proceeding is between the patent owner and the USPTO.

#### *Inter partes* re-examination requests by third party

*Inter partes* re-examination begins with a process similar to that of a third-party *ex parte* request, but with the difference that the third-party requester remains involved in all proceedings until final resolution, including possible appeal to the CAFC. This expanded third-party participation can be significant where, for example, the issues are subtle or the technology is complex.

#### Re-examination versus district court assessment of patent validity

Re-examination conducted by the USPTO has the following features:

- Claims are reviewed with their broadest reasonable interpretation consistent with the specification.
- There is no statutory presumption of validity; claim validity is reviewed with a lower standard of proof (ie, preponderance of the evidence).
- Claims are reviewed by technically trained USPTO examiners.

In contrast, a validity review by a district court is carried out as follows:

- Claims are reviewed in light of the specification and prosecution history.
- The statutory presumption of validity must be refuted by a higher standard of proof (ie, clear and convincing evidence).
- Claims are construed and evaluated by the judge and jury, who are typically not technically trained.

**Case study: SuccessCo’s strategic use of re-examination**

Max Value, chief IP officer of SuccessCo Inc, must maintain profit margins on his company’s key commercial products and services through exploitation of the company’s IP portfolio. Value requests a meeting with his outside counsel, Will Assist. SuccessCo’s business relates to the manufacture and sale of specialised gears, and the company plans to expand into a broader range of complementary products and accessories.

**Problems**

Value has three key issues to resolve.

**Patent infringement complaint against SuccessCo**

SuccessCo’s largest competitor, CompetitorCo Inc, has just served a complaint accusing SuccessCo of infringing CompetitorCo’s alleged blocking patent with respect to gear drive controllers that SuccessCo has recently introduced to the US market. CompetitorCo has previously enforced the same patent against a third-party vendor, with a district court finding that the patent was valid and infringed by the third party’s products.

**Unasserted third-party patents of overly broad scope affecting SuccessCo’s sales efforts**

SuccessCo, following rave reviews of its new gear drive controller, has developed a long-term business plan to expand its accessory products. SuccessCo would like to develop its own line of gearing lubricants. However, SuccessCo has conducted research and learned that various other gearing lubricant suppliers have patents with overly broad claims that appear to cover all such

gearing lubricants. SuccessCo’s customers have expressed concern over purchasing its proposed lubricants because other lubricant manufacturers and distributors aggressively mark their products with the US patents in question. SuccessCo would prefer to understand fully the scope of those patents before incurring significant start-up costs for its new line of business or obligating itself to potentially costly indemnification agreements.

**SuccessCo’s exploitation of its own patent**

SuccessCo’s key product ‘Big Gear’ includes a gearing feature covered by SuccessCo’s own US patent. SuccessCo believes this patent is being infringed by other manufacturers and distributors in the US market. SuccessCo would prefer to enforce or license the patent, but has become aware of possible prior art printed in various Japanese trade magazines which SuccessCo believes that third parties might use to challenge (albeit without merit) the validity of its US patent.

**Solutions**

Assist recommends that re-examination be considered as part of a strategy to address each of the three issues. Although re-examination will not necessarily be pursued in each case, Assist makes it clear that *ex parte* and/or *inter partes* re-examination may prove useful in helping to resolve each issue favourably, as follows.

**Re-examination as litigation dagger**

Upon receiving notice of CompetitorCo’s complaint, SuccessCo can consider whether a re-examination proceeding would provide tactical advantage. The USPTO would apply a broader interpretation to the claims of CompetitorCo’s patent with no presumption of validity. If a re-examination request is filed promptly, before any significant discovery has occurred in the litigation, there is a greater likelihood that the district court will grant a motion to stay the lawsuit. The strategy may give SuccessCo additional time to research the strength of the patent and reach favourable resolution with CompetitorCo.

Motions to stay are evaluated by a district court’s balancing of multiple factors, such as:

- prejudice to the patent owner;
- simplification of litigation issues; and
- discovery stage and trial date.

(See, eg, *Sovereign Software LLC v Amazon.com, Inc*, 356 F Supp 2d 660, 662 (ED Tex 2005).)

By subscribing to the USPTO re-examination process, SuccessCo will likely be bound by the USPTO determination as to validity. However, if the claims are

found invalid in re-examination, SuccessCo's leverage in negotiating resolution of the litigation might be enhanced.

Even if the claims are simply narrowed in the re-examination process, SuccessCo's leverage may be sufficiently improved. For example, where a certificate of re-examination issues with a set of amended claims, the doctrine of intervening rights can deny the patent owner past damages.

Should SuccessCo choose the re-examination route, it will have to decide between the *ex parte* and *inter partes* procedures (assuming that the patent in question was filed after November 1999 and is eligible for *inter partes* re-examination). This decision often turns on the quality of the prior art or printed publications asserted. Where, for example, the art is strong in anticipating broad independent claims of the patent, *ex parte* re-examination may prove sufficient. However, where a greater level of involvement by the third-party requester is deemed necessary to establish theories of patent invalidity, the *inter partes* option may be preferred.

#### Re-examination as dagger to limit third-party rights

SuccessCo can also consider using re-examination proceedings to have broad, blocking patents re-evaluated by a technically skilled patent examiner. Claims which are ultimately narrowed or invalidated by the USPTO during re-examination could guide SuccessCo in pursuing its proposed accessory line of lubrication products and avoiding potential litigation.

This would particularly be the case where SuccessCo developed its products based on prosecution history estoppel (eg, amendments or statements made by the patent owner to secure a re-examination certificate).

#### Re-examination as shield to enhance patent value

SuccessCo can galvanise its own patent by using a patent owner-requested re-examination to have the newly discovered Japanese trade magazine articles formally considered by the USPTO. SuccessCo can explain how its patented claims distinguish over the newly discovered prior art.

The USPTO may decline to open the re-examination if it concludes that no new substantial question of patentability exists, in which case SuccessCo will have strengthened its patent against later allegations that the content of the Japanese trade magazine articles, or similar disclosures elsewhere, render the patent claims invalid. Even if the *ex parte* re-examination is opened, SuccessCo's attorneys will be able to interface directly with the patent examiner to obtain a re-examination certificate.

#### Conclusion

Re-examination is a powerful procedural weapon that can be used to enhance the value of a company's own patent portfolio or to undermine the value of a competitor's portfolio. Re-examination proceedings should be considered on a case-by-case basis as part of a comprehensive IP strategy to enhance a company's return on research and development investment.



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Patrick C Keane is chair of the firm's IP section. He focuses his practice on all aspects of IP counselling, including patent litigation and IP portfolio development. This focus includes strategic development and enforcement of IP portfolios to optimise revenue and product sales. Mr Keane's litigation background includes approximately 20 years' experience representing small, mid and large-cap companies in federal court actions and in proceedings before the International Trade Commission.