

Post-Grant Review of U.S. Patents: Will Past Be Prologue?

Post-grant review of patents is a feature of several of the world's most developed patent regimes. In contrast, express review immediately after grant has not been a feature of U.S. patent law. Instead, U.S. law provides for two different types of post-grant review (*ex parte* and *inter partes* reexamination) that permit interested third parties or the patentee to have a granted patent reviewed by the Patent and Trademark Office for compliance with the patent statute, particularly under circumstances where "new" prior art is submitted that the Office had not previously considered. These different types of review have not reduced patent litigation to the extent expected and indeed have proven to be apt tools for defendants to delay incurring patent infringement liability, frequently when the patentee has limited resources that make it difficult to maintain both infringement litigation and Patent Office reexamination actions concurrently. Even the "cloud" on the validity of a patent caused by reexamination can be detrimental to activities, such as attracting venture capital, that are vital to the existence of start-up companies in areas like biotechnology.

The recently-released "Managers' Amendment"¹ of the latest patent reform bill (S.515) contains provisions for yet a third embodiment of post-grant review (PGR). This iteration resembles opposition proceedings that exist, for example, in the European Patent Office. The PGR proposed in the Senate bill contains provisions purported to be time-limited, expeditious, focused on improving patent "qual-

ity" and reducing unnecessary litigation costs. However, except for the first feature, these were all ostensible benefits of each of the earlier types of reexamination. Although the bill's PGR provisions appear to be aimed at reducing the potential for patentee harassment, the mere addition of yet another PGR protocol, especially without

Reexamination under current U.S. law has not reduced patent litigation as expected; instead reexam can be detrimental to attracting venture capital that is vital to the existence of start-up companies.

any limitations to existing reexamination procedures, raises the possibility of such harassment.

The question persists whether any of these reexamination schemes improve patent quality and reduce litigation, as their proponents contend, or instead afford a means for harassing a patentee, avoiding or delaying infringement liability or providing a means for large companies to take advantage of financial and other vulnerabilities of smaller companies, individuals or universities. This article explores these questions based on historical patterns of reexamination outcomes and by contrasting the provisions of the earlier re-examination processes with what is proposed in the Senate bill.

PAST: EXISTING FORMS OF POST-GRANT REVIEW

The first of the post-grant review provisions in the U.S. is *ex parte* reexamination.² This procedure,

enacted in 1980³, provides both the patentee and any third party⁴ a means to initiate review of any U.S. patent at any time after grant. Reexamination is initiated by request to the Director⁵ and the Director's decision whether or not to grant a reexamination cannot be appealed.⁶ The request for reexamination must raise a "substantial new question of

patentability"⁷ based on patents or printed publications and asserting that the claims are not new or are obvious;⁸ no other statutory bases

1. A "Managers' Amendment" is a revision of a pending bill, typically offered by the bill's lead sponsor or the chairman of the committee considering the bill and often offered after a bill has been reported out of committee. Even though it has not been voted on or formally adopted as an amendment to S.515, the Managers' Amendment reflects the results of negotiations intended to increase the likelihood of the bill's passage and is considered the "current" version of the bill that may be introduced onto the Senate calendar for a floor vote.

2. "*Ex parte*" means that reexamination is performed solely between the patentee and the examiner without participation of a third party adversary; "*inter partes*" means a reexamination proceeding with participation of both the patentee and an opposing party (although third party participation is limited).

3. 35 U.S.C. §§ 301-307 (2000)

4. One advantage of *ex parte* reexamination is that the requestor can remain anonymous; *Syntex Inc. v. U.S. Patent and Trademark Office*, 882 F.2d 1570, 1573 (Fed. Cir. 1989)

5. 35 U.S.C. § 302 (2000)

6. 35 U.S.C. § 303(c) (2000)

7. 35 U.S.C. § 303 (2000)

8. 35 U.S.C. § 301 (2000)

for invalidation can be raised in an *ex parte* reexamination.⁹ Once granted, *ex parte* reexamination proceeds along the same lines as prosecution of a patent application. Importantly, during reexamination, the patent is not entitled to the presumption of validity that it enjoys during patent infringement litigation, and a third party requestor has no further input or involvement in the reexamination proceedings.

Ex parte reexamination generally has failed to live up to the hopes and expectations of its proponents¹⁰ that it would become an alternative to patent litigation. The number of reexamination requests granted each year has remained at 200-300 from 1980 until very recently.¹¹ Prior to about 2000, reexamination was most frequently

of patents in parallel with patent infringement litigation.

At least partially in view of the extant shortcomings concerning third-party participation in *ex parte* reexaminations, Congress enacted an *inter partes* reexamination regime as part of the American Inventors Protection Act in 1999.¹⁴ One major distinction between the two types of reexamination is that in an *inter partes* reexamination a third-party requestor may “comment” on any response a patentee makes.¹⁵ There are also a number of other differences that affect the scope, and, until recently, the likelihood of *inter partes* reexamination. For example, the identity of the third party requestor must be revealed in an *inter partes* proceeding. This

grounds that were “raised or could have been raised” in a prior *inter partes* reexamination. While these provisions were intended to prevent harassment of patentees and to motivate third party requestors to “put all their cards on the table” during *inter partes* reexamination, the indeterminate scope

Increased reexamination pendency imposes uncertainties on a patentee: the scope of the claims, and the patent’s effectiveness in excluding others...

used by patentees who wanted to strengthen their patent prior to patent infringement litigation. By having art considered by the Office, the reexamination raises the burden of proof for an accused infringer to show the patent was invalid and improperly granted.¹² For patentees, a great advantage of *ex parte* reexamination was that it gave third parties no opportunity to participate in the reexamination once it had been initiated.¹³ As will be discussed more fully below, it is only in the last three or four years that accused infringers have fully appreciated the opportunities of *ex parte* reexamination for aggressively pursuing invalidation

aspect has led some commentators to speculate that identification provides a disincentive to filing *inter partes* reexamination requests by companies afraid of being accused of patent infringement.¹⁶ Also, the scope of “comment” available to a third party requestor is limited; for example, the Office does not permit interviews or other direct communications from third-party requestors to an examiner.¹⁷ The most controversial aspect of *inter partes* reexaminations¹⁸ are the estoppel provisions:¹⁹ a third party requestor may not raise a defense of invalidity in subsequent litigation and may not institute a later *inter partes* reexamination on any

9. Unlike a European opposition, there is no opportunity to raise issues regarding sufficiency of disclosure nor can the requestor challenge whether the best mode under 35 U.S.C. §112 has been disclosed. Neither is it possible to raise issues of public use, on-sale or other novelty destroying activities not supported by publications. Allegations of inequitable conduct are also not a sound basis for reexamination.
10. Comments of Rep. Robert Kastenmeier (D-WI), 126 Cong. Rec. 29,895 (1980), cited in Kristen J. Osenga, “Rethinking Reexamination Reform: Is It Time for Corrective Surgery, or Is It Time to Amputate?”, 14 Fordham Intell. Prop. Media & Ent. L. J. 217-254 (2003).
11. Allan M. Soobert, “Breaking New Grounds in Administrative Revocation of U.S. Patents: A Proposition for Opposition—and Beyond”, 14 Santa Clara Computer & High Tech L. J. 100-101 (1998), citing 1992 Comm’r of Patents and Trademarks Annual Report 30, 59.
12. For example, of 441 *ex parte* reexamination requests filed in 2004, 38% were by patent owners, 61% by 3rd parties, and 1% by the commissioner; www.uspto.gov/web/offices/com/annual/2004/060413a_table13a.html.
13. Mark Janis, “Rethinking Reexamination: Towards a Viable Administrative Revocation System for U.S. Patent Law”, 11 Harv. J. L. & Tech. 1-58 (1997).
14. Pub. L. 106-113, § 4604, 113 Stat. 1501A-567 (1999), codified at 35 U.S.C. §§ 311-318 (2000)
15. 35 U.S.C. § 314 (2000)
16. Ashley Parker, “Problem Patents: Is Reexamination Truly a Viable Alternative to Litigation?” 3 N. Car. J. L. & Tech. 305-332 (2002). This is particularly a problem for a smaller start-up company, that may not be able to afford preemptive litigation by a larger competitor sparked by *inter partes* reexamination.
17. Rules to Implement Optional Inter Partes Reexamination Proceedings, 65 Fed. Reg. 76756, 76781 (2000), codified at 37 C.F.R. § 1.955, cited in Kristen J. Osenga, “Rethinking Reexamination Reform: Is It Time for Corrective Surgery, or Is It Time to Amputate?” 14 Fordham Intell. Prop. Media & Ent. L. J. 217, 238 (2003).
18. As enacted, a third party requestor had no right to appeal the decision outside the Board of Patent Appeals and Interferences; this prohibition was changed to confer on third party requestors the right to appeal to the Federal Circuit (35 U.S.C. § 141) or the District Court (35 U.S.C. § 145) at Pub. L. 107-273, § 13106, 116 Stat. 1901 (2002), codified at 35 U.S.C. § 315(b) (2000).
19. 35 U.S.C. §§ 315(c) and 317(b) (2002)

of the “could have been raised” provisions of the statute has, until recently, discouraged many third parties from requesting *inter partes* reexamination.²⁰

PRESENT: USES AND ABUSES OF POST-GRANT REVIEW

Despite these limitations, both forms of reexamination have enjoyed a surge in popularity over the past several years. *Ex parte* reexamination requests have increased from 272 in 2002 to 658 in 2009.²¹ The impetus of litigation in provoking reexaminations as a tactic is evidenced by the increasing percentage of patents involved in *ex parte* reexamination that are being actively litigated. This percentage was 19% in 2002 and has steadily increased to 56% in 2009.²²

There has been a similar increase in *inter partes* reexaminations: from four filed in 2002, there are now over 700 *inter partes* requests that have been filed since the statute was enacted.²³ As with *ex parte* reexaminations, the frequency of *inter partes* reexaminations involving actively-litigated patents has increased over the past decade, from 17% in 2002 to 64% in 2009.²⁴

This growth in reexamination occurred despite increased reexamination pendency: the average pendency for *ex parte* reexamination in the years 2007-2009 has increased to 56 months (4.7 years) and for *inter partes* reexamination the pendency is 43 months (3.6 years). This increasing delay has come in the face of affirmative efforts by the Patent and Trademark Office to expedite reexaminations (which are to be performed with “special dispatch”) including establishing a Central Reexamination Unit (CRU) consisting of experienced examiners dedicated

to reexaminations.²⁵ Increased reexamination pendency imposes a burden on a patentee, due to the uncertainty on the scope of the patent claims and the patent’s effectiveness in excluding others from practicing the invention. It is evident that this uncertainty inures to the benefit of an accused infringer, who at a minimum benefits from any reduction in the scope of the claims efficacy of a patent-in-suit.

In addition to the uncertainties and risks for the patentee introduced into patent litigation when some or all of the patents-in-suit are put into reexamination, district courts are much more likely to grant stays in cases where an *inter partes* reexamination is concurrently pending (estimated to occur about half the time). These statistics paint a picture of litigants, most often accused infringers, using reexamination, particularly *inter partes* reexamination, as an offensive and effective litigation tactic. (Missing from the statistics, of course, are situations where the threat of *inter partes* reexamination promotes settlement.) The attractiveness of reexamination is apparent: most requests to start a reexamination are granted (upwards of 98%) particularly because of the low threshold standard requiring that the requestor assert a mere “substantial new question of patentability.” This threshold became even easier to meet in 2005 when Congress expanded the scope of prior art available to request a reexamination to include art already considered by the examiner during *ex parte* prosecution.²⁶

Reexamination can last for several years—for example, the Patent Office had not completed a single *inter partes* reexamination in a fully-contested proceeding in the

seven year lifetime of the program as of January 2009.²⁷ While a patent is involved in a reexamination, litigation may be stayed (and if not, the existence of the reexamination puts a cloud on the patent). Even if not involved in litigation, the uncertainties attendant upon a patent being in reexamination significantly reduces its value for attracting investment, if only because it greatly increases the risk that an investment will not have patent protection needed to create a greater likelihood for a return on investment.

Patent Office delay and inefficiencies are thus not neutral: the very existence of the reexamination provides an infringer with ammunition that can be used against the patentee in litigation, for example in obtaining a preliminary injunction (where the reexamination at least detracts from the patentee having a reasonable likelihood of success on the merits) or proper claim construction (in view of the likelihood that at least some of

20. Kristen J. Osenga, “Rethinking Reexamination Reform: Is It Time for Corrective Surgery, or Is It Time to Amputate?”, 14 *Fordham Intell. Prop. Media & Ent. L.J.* 217, 238 (2003).

21. Year to year there has been an almost steady increase: 44% from 2002-2003; 12.5% from 2003-2004; 19% from 2004-2005; -2.5% from 2005-2006; 26% from 2006-2007; 6% from 2007-2008; and -3% from 2008-2009. Performance and Accountability Report, Fiscal Year 2009, p. 124 and Fiscal year 2004, Tables 13b.

22. *Id.*

23. Year to year there has been a steady increase: 110% from 2004-2005; 19% from 2005-2006; 80% from 2006-2007; 33% from 2007-2008; and 53% from 2008-2009. Performance and Accountability Report, Fiscal Year 2009, p. 124 and Fiscal year 2004, Tables 13b.

24. Federal Judicial Statistics, Table C-4, U.S. District Courts—Civil Cases Terminated, by nature of Suit of Action.

25. Established July 29, 2005; www.uspto.gov/web/offices/com/speeches/05-38.htm

26. Pub. L. 107-273, § 13105, 116 Stat. 1900 (2002) codified at 35 U.S.C. § 303(a) (2000).

27. Matthew A. Smith, “Inter Partes Reexamination”, Ed. 1E, 54. The Office had issued final decisions in only seven *inter partes* reexaminations during calendar year 2009 (H. Wegner, personal communication).

the claims will be amended during the reexamination) and of course the effects on the fact finder (judge or jury, the reexamination puts into question the patent's validity). And during this time, the patentee must finance these costs to the detriment of investing in further research and development (a consideration that disparately impacts smaller, venture-capital dependent companies).

FUTURE: A NEW FORM OF POST-GRANT REVIEW WILL REDUCE SOME PROBLEMS AND CREATE OTHERS

As has been the case since patent reform legislation was first introduced in 2005, the most recent Managers' Amendment to S.515

deadline for requesting review within nine months of patent grant.³⁰ As with *inter partes* reexamination, the real party in interest must be disclosed³¹ and like all reexaminations, the Director's decision whether or not to institute post-grant review cannot be appealed.³² Post-grant review will not be instituted or maintained if the real party in interest has also filed a declaratory judgment action seeking to invalidate the patent³³ or three months after the date on which a requestor is required to answer a complaint for patent infringement.³⁴ While these provisions may prevent "sandbagging" by accused infringers, they also create another, low-risk means for infringers to mount patent chal-

grounds for review are also more expansive than either of the current reexamination procedures and expressly extend beyond novelty and non-obviousness over the prior art to encompass, *for example*, questions regarding whether the patent satisfies the requirements for disclosure in the specification.³⁸

While raising the standard for initiating PGR, the proposed statute would provide more limited rebuttal opportunities for patentees. The bill, as revised in the March 2010 Managers' Amendment, gives a patentee only one opportunity to propose amendments to the claims to overcome the asserted ground for invalidity³⁹ although additional opportunities are theoretically available if both the patentee and requestor agree; presumably, these provisions are intended for situations where the parties have agreed to settle.⁴⁰ Post-grant review proceedings are to be heard before Administrative Patent Judges (rather than examiners) in a newly-

A lower standard of estoppel (greater ability of a challenger to later re-litigate related issues) exposes patentees to the risk of multiple validity challenges in different venues and under different validity standards.

released by the Senate Judiciary Committee in March 2010 contains post-grant review provisions.²⁸ These provisions are in many respects more expansive than either *ex parte* or *inter partes* reexamination and resemble certain aspects of European opposition practice. The Managers' Amendment has been heavily modified from previous versions of the bill, seemingly in an effort to provide post-grant review sufficient to satisfy critics who want better patent "quality"²⁹ while purportedly protecting patentees from undue harassment.

Specifically, the post-grant review provisions of S.515 set a

deadline for requesting review within nine months of patent grant.³⁰ As with *inter partes* reexamination, the real party in interest must be disclosed³¹ and like all reexaminations, the Director's decision whether or not to institute post-grant review cannot be appealed.³² Post-grant review will not be instituted or maintained if the real party in interest has also filed a declaratory judgment action seeking to invalidate the patent³³ or three months after the date on which a requestor is required to answer a complaint for patent infringement.³⁴ While these provisions may prevent "sandbagging" by accused infringers, they also create another, low-risk means for infringers to mount patent chal-

lenges. The provisions further specify that review must be completed within 12 months of commencement³⁵ (the Director can extend the time for review by an additional six months for good cause).³⁶ There are no remedies in the proposed statute if the Office does not meet this deadline, however. The threshold for instituting post-grant review is more stringent than for either *ex parte* or *inter partes* reexamination: review will be granted only if the requestor provides information that, if un rebutted, makes it more likely than not that at least one claim in a granted patent is invalid.³⁷ The

28. S.515, Chapter 32
 29. Federal Trade Commission, "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy" (2003); National Academies of Science, "A Patent System for the 21st Century" (2004).
 30. S.515, § 321(c)
 31. S.515, § 322(a)(2)
 32. S.515, § 324(e)
 33. S.515, § 325(b)(1)
 34. S.515, § 325(b)(2)
 35. S.515, § 326(a)(11)
 36. There are no provisions in the bill that would prevent fee diversion or otherwise ensure that the Patent and Trademark Office will be able to provide staff sufficient to meet these goals.
 37. S.515, § 324(a); in addition, the Director may institute post-grant review if the petition "raises a novel or unsettled legal question that is important to other patents or patent applications." S. 515, § 324(b).
 38. S.515, § 321(b)
 39. S.515, § 326(d)(1); in contrast, in the EPO patentees typically propose several versions of amendments to the claims (a Main Request and multiple Auxiliary Requests) that provide strategic room to maneuver around the different grounds of invalidity identified by the third party opponent or the EPO tribunal.
 40. S.515, § 326(d)(2)

constituted Patent Trial and Appeal Board,⁴¹ applying the evidentiary standard of a preponderance of the evidence.⁴² Either party may appeal the PTAB's decision to the Federal Circuit.⁴³

Post-grant review also raises significant estoppels against further attacks by the same requestor (typically an accused infringer). For example, no issue that was raised or reasonably could have been raised by a requestor for post-grant review can be used as the basis for a subsequent *inter partes* reexamination.⁴⁴ However, in subsequent (or concurrent) litigation, the estoppel only extends to issues that were *actually* raised in a post-grant review.⁴⁵ This is a significant change from the current standard in *inter partes* reexaminations where the "could have been raised" estoppel applies to both subsequent reexaminations in the Patent Office and subsequent (or concurrent) litigation. This difference from prior reexamination estoppels exposes patentees to the risk of multiple validity challenges in different venues and under different validity standards. In view of the increasing frequency of *inter partes* reexaminations used during litigation, there is no evidence that protecting patentees using the "could have raised" standard in patent litigation and reexamination proceedings has had any deleterious effects on litigation strategy of accused infringers. Including a "could have raised" standard in PGR would likewise not be expected to inhibit or preclude a third party from challenging the patent after grant, but it would prevent the types of litigation gamesmanship that can seriously affect a small company's capacity to weather successive patent validity challenges.

The bill also contains provisions intended to prevent a district court from staying a patentee's motion for a preliminary injunction based on post-grant review⁴⁶ (although it is difficult to envision how Congress can interfere with the exercise of a district court's discretion to manage its own docket).

S.515 also revises *inter partes* reexamination procedures in ways consistent with its post-grant review provisions, *for example*, by restricting the time for filing an *inter partes* reexamination until *after* the nine month period for post-grant review (or after such review is terminated).⁴⁷ These revisions also extend the "reasonable likelihood" standard required for instituting post-grant review to apply as the standard for instituting an *inter partes* reexamination,⁴⁸ which may be beneficial for patentees. In addition, the bill incorporates the timing preclusions regarding litigation related *inter partes* reexaminations,⁴⁹ which can be expected to prevent the use of *inter partes* reexamination filings as a strategy during litigation, and require *inter partes* reexamination to be timely completed (i.e., within one year⁵⁰) similar to those in the proposed post-grant review provisions. Significantly, the bill does not change the "raised or could have raised" estoppel for subsequent *inter partes* reexaminations or civil actions.⁵¹

WILL PAST BE PROLOGUE?

The current *ex parte* and *inter partes* reexamination regime has prompted allegations of unfairness by both patentees and patent challengers. Patentees rightly fear (and have been increasingly subject to) duplicative, concurrent patent infringement litigation and reexamination, or extended stays producing protracted delay in resolving patent

infringement litigation, even as the Office takes longer and longer to determine the outcome of a reexamination, including whether a patent should emerge from reexamination in original form or amended form. Reexamination also raises the possibility that infringed claims will require amendments that reduce the extent or scope of infringement or that raise equitable issues regarding the extent of damages to which patentees are entitled. The provisions in the Managers' Amendment to S.515 do little to address the grievances of either camp. It is evident, however, that the PGR provisions in the Managers' Amendment to S.515, if enacted, would expose small companies and start-ups (traditionally the source of a great deal of innovation in the American economy) to increased risks to their intellectual property. Increasing risk to the patent portfolios of small companies and start-ups can be expected only to make it more difficult for such companies to attract investment and thus far more difficult for these companies to bring products to market. Whether this outcome is balanced by better patent "quality" or more certain patent protection will only be appreciated when, and if, a patent reform bill such as S.515 is enacted into law. ■

41. S.515, § 6

42. S.515, § 326(e)

43. S.515, § 329

44. S.515, § 325(d)(1)

45. S.515, § 325(d)(2)

46. S.515, § 325(a)

47. S.515, § 311(c); while these provisions no doubt are intended to preclude duplicate proceedings in the Office, they have the benefit of preventing an accused infringer from initiating yet another challenge to the patent in the Office concurrent with patent infringement litigation.

48. S.515, § 314(a)

49. S.515, § 315(a)(1) and (2)

50. S.515, § 316(a)(12), having the same caveats concerning implementation mentioned above for post-grant review.

51. S.515, § 315(d)(1) and (2)