

The Patent Lawyer

THE POWER OF PATENT ReEXAMS:

An underused weapon in the accused infringer's arsenal

By Daniel W. McDonald

For in-house counsel and their clients, threats of patent infringement are much more fun to give than to receive. Whether direct, as by lawsuit or letter, or indirect through express or implied threats to customers, threats raise a host of issues. Do we have a good defense? How much will it cost to prove it? How long will it take? Can we resolve the issue cheaper and more quickly than through litigation? Can we put ourselves in a strong bargaining position for a favorable settlement?

The threats can be particularly frustrating when counsel or the client believes the patent is invalid. The patent owner is not exactly eager to acknowledge invalidity issues, and often stands smug knowing that proving invalidity through litigation is a costly, daunting, lengthy and uncertain task. Sometimes, the crafty patent owner refuses to specify an infringement claim even while dangling the issue, creating risk for the almost-accused without creating the "actual controversy" necessary to permit a declaratory judgment action attacking the patent's validity in court. What can in-house counsel do to counter this threat? Full-blown patent litigation may be the best option sometimes, especially when all other options fail to achieve the client's objective of clearing the way for sales of the product at issue. However, another option should be carefully considered, as either an alternative to litigation or a complement: initiating a reexamination of the patent. This process is far cheaper than litigation, but can be equally deadly.

The power of a successful reexamination should not be underestimated. For example, the \$521 million jury verdict in the Eolas Technologies v. Microsoft case is at risk, due to the PTO's decision to grant reexamination of that patent. Reexamination is a potent but underused weapon in the arsenal of the party facing a charge of infringement. Consider the following powers of the process:

The power of piercing the presumption of validity. Both from a legal and practical standpoint, the presumption of validity is a significant obstacle for an accused infringer in patent litigation. The presumption of validity must be overcome with clear and convincing evidence. The FTC considers the advantages of the presumption of validity so unfair that it recently proposed abolishing the presumption altogether.

However, the presumption of validity does not apply to patent reexaminations. This procedural difference parallels a practical difference as well: The reexamination process provides the PTO with an opportunity to correct its own mistakes, rather than waiting for a judge and jury to do so in litigation.

Add to all these factors the technical expertise that the PTO examiners can bring into play, and one must conclude that, in the proper case, the PTO should be viewed as a favorable forum for considering strong prior art. To look at it another way: If you don't think you can convince the examiners at the PTO of a patent's invalidity, why do you think you will be able to prove by clear and convincing evidence to an inexperienced jury that the experts at the PTO were wrong?

The power of preserving cash. Even relatively "small" patent litigation can top \$1 million in fees and expenses. In contrast, an ex parte reexamination can be filed for a fraction of these costs, typically in the tens of thousands of dollars.

Moreover, courts are quite willing to consider stays of litigation pending the outcome of the reexamination process. Discovery regarding damages, infringement and willfulness is postponed, and may be avoided entirely, by a stay.

The power of the first punch. Reexamination addresses one essential issue: Are the claims of the patent invalid over the cited prior art? Reexaminations are also treated with special dispatch at the PTO, typically meaning preliminary decisions on validity are rendered within a few months, and extensions of time are harder to come by for the patentee. In contrast, a court or jury may not make a validity decision for years.

Delays at the PTO are not just shorter. Oftentimes, they are less painful. That is because reexamination, in effect, gives the accused infringer one "free swing" at the patentee during round one of the boxing match. Reexaminations are not saddled with all of the issues in patent litigation such as reasonable royalties, lost profits or willful infringement, let alone any other claims, counterclaims and cross claims.

Another key advantage: the client using reexamination need not endure a costly and disruptive discovery process involving document productions, e-mail dumps,

depositions, and the like. Indeed, the difficulties in obtaining an invalidity decision before trial, coupled with the risk of trial and the expense and inconvenience of litigation, often compel settlement on less-than-favorable terms. This can mean that strong prior art obtained by the accused infringer does not have the positive impact that it should.

In contrast, reexamination can create concrete, positive results within months, focused on invalidity. Whether reexamination is pursued before or during litigation, such a decision can have a dramatic effect. The patentee may think it has excellent infringement arguments, or good equities and a potential for a high damages recovery. But once it is faced with the rejection of its claims on reexamination, the importance and benefits of all of these aspects of their case plunge. The patentee can complain little of the speck in your eye, in view of the board in her eye.

Reexamination provides "first strike" capability in another critical sense. Unlike litigation, a reexamination may be requested without the "case or controversy" necessary for declaratory judgment jurisdiction. Thus, reexam may be used before the patentee charges infringement.

The power of percentages. The patentee usually prevails on the validity issue in litigation. Studies show that the patentee wins 67 percent of the time if the patentee brought suit. In contrast, about 60 percent of reexamination requests result in findings that the claims as originally issued are invalid, with the claims either canceled entirely or amended.

This comparison is not apples-to-apples in some respects. Unlike a judge or jury, the PTO may invalidate the claims as originally issued, but allow new claims to issue at the conclusion of the reexamination process that were not in the original patent. If the accused infringer will infringe the narrowed claims, they are a problem. However, these percentages do suggest that reexamination is a more hospitable forum for the potential infringer. This is especially true when another important benefit of reexamination is factored in for the typical situation in which claims are amended:

The power of perishing past damages.

When the patentee narrows its claims to overcome prior art on reexamination, that can have a devastating affect on the patentee's claim for damages. The patentee will not be able to recover any damages

for past infringement of any claims that are canceled or narrowed during the reexamination process.

Thus, a patentee who waits years to bring a lawsuit claiming infringement may seek past damages for up to six years, the maximum allowed by the Patent Act. Although such a situation may give rise to a laches claim, it also has the effect of increasing the potential exposure of the accused infringer. Even an infringer who takes steps to stop future infringement still faces the daunting risk of owing potentially significant past damages. Enter the reexamination process. A favorable decision in reexamination will eliminate such past damages, even if the patent emerges from the reexamination process with new, narrowed claims. Thus, a favorable Office Action by the PTO cuts a patentee's past damages claim at the knees.

But what about future infringement? This issue raises yet another interesting benefit of the reexamination process:

The power of planning. Reexamination laws provide assistance to accused infringers who may face claims amended from the original claims. Products made before the reexamined patent issues can continue to be used or sold to others after the reexamined patent issues. The laws even give a court the right to allow a potential infringer to continue to make and sell a product that would be covered by the new claims, to allow for protection of investments made or business commenced before the patent emerges from reexamination.

Moreover, the accused infringer will see proposed amended claims from the patentee many months before the reexamined patent issues. This lag time gives the accused infringer time to change its products to avoid infringement of the new claims.

The power of prosecution estoppel. Even if a patent reemerges from the reexamination procedure, it may do so only after additional prosecution by the patentee. The patentee may make a variety of representations narrowing the scope of the claims or distinguishing the prior art from the claims. A patentee's statements can and will be held against them in a court of law.

Effectively invoking the power of the process.

Reexamination has limits, and is not always the right solution. However, the above-identified powers of the reexamination process suggest that the process is underutilized, and should always be considered.

When seeking to invoke the benefit of these powers for good and not evil, consider asking the following questions of the outside law firm assisting you in the matter:

- *Are they experienced both with trying patent lawsuits and using the reexamination process to invalidate patents?*
- *Do they have former PTO examiners or other attorneys experienced with the reexamination process, which is much different from litigation?*
- *Does the firm have expertise in ferreting out prior art soon after an infringement situation arises, when it can do the most good cost-effectively in reexamination?*
- *Do the lawyers effectively communicate the pros and cons of each option in a way that is helpful to the client, including the relative costs and timing of the various options and their likely drain of company resources?*

Reexamination may provide an important part of an overall strategy in attacking infringement charges that maximizes the chances for success, improves bargaining positions, and minimizes costs. Clients and their counsel who ignore this option may increase costs and risk. That's a combination that should always be reexamined.

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