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Patent Re-Exams Are Growing As Key Defense Tactic

By **Erin Coe**

Law360, New York (October 23, 2008) -- More companies hit by infringement suits are ready to turn the tables on patent holders with a new defense strategy that is becoming increasingly popular: patent re-examinations.

The U.S. Patent and Trademark Office has seen a huge jump in two types of requests for the agency to take another look at the validity of a patent that is being asserted in litigation: ex parte requests for cases in litigation, which increased from 109 in 2003 to 369 in 2007; and inter partes requests for cases in litigation, which went from a mere seven in 2003 to 81 in 2007.

A re-exam can be requested by anyone, including an accused infringer. An ex parte re-exam is strictly between the patent holder and examiner, while an inter partes re-exam allows the party bringing the request to take part and rebut the patent holder's arguments.

Both types of requests are on track to continue the upward trend this year, with 487 ex parte requests (cases both in litigation and not) filed in the first half of this year compared to 633 requests for all of 2007, and with 128 inter partes requests filed in the first half of this year compared to 126 for all of 2007.

Robert Greene Sterne, a founding partner at Sterne Kessler Goldstein & Fox PLLC, said re-exams should be considered in every defense case because if a patent is successfully challenged in re-exam, it can wipe out a win for the patent holder in district court.

"A lot of re-exams are filed as an insurance policy against a first finding of infringement in a district court," he said.

The success rate of inter partes re-exams is also likely to encourage accused infringers to keep bringing the requests. Of the total 27 proceedings where a re-exam certificate was issued in the first half of this year, 78 percent saw all the patent claims canceled.

If a patent is asserted in litigation and its claims are canceled in the re-exam, that means the case is over, said Robert M. Abrahamsen, an intellectual property litigator at Wolf Greenfield & Sacks PC.

“If you look at the average cost of litigation in a district court, it’s between \$2 million and \$5 million. Inter partes re-exams are much lower, and if litigation is avoided, you are getting out cheap,” he said.

Even if claims are not canceled in the re-exam, but are modified, those changes could help an accused infringer’s case back in court.

“Patent claims that are amended could eliminate or reduce questions of infringement,” said Stephen M. Haracz, an IP partner at Bryan Cave LLP.

The rise in requests partly stems from the USPTO’s establishment in 2005 of the Central Re-examination Unit, which is made up of a core group of specialists focused on handling re-exam requests.

In the past, the original examiner who granted the patent would be in charge of the re-exam, but now the CRU allows the patent-at-issue to be reviewed by a different examiner.

“A few years ago, we’d have to get the original examiners to reverse themselves, and that’s not an easy thing to do,” Haracz said.

The spike in inter partes re-exam requests has to do with the fact that these re-exams are only available for patent applications filed after November 1999. As these applications make their way through the pipeline, more requests are being filed, lawyers said.

A series of court decisions has also thrown the spotlight on re-exams as a viable option for accused infringers.

The U.S. Supreme Court’s decision in *KSR International Co. v. Teleflex Inc.* in April 2007 made it easier to challenge the validity of a patent due to obviousness.

“Parties may be more comfortable that the USPTO will find a patent invalid on obviousness grounds in view of *KSR*,” Abrahamsen said.

Hitachi Ltd. and Renesas Technology Inc. sidestepped a huge payout in October 2007 when the U.S. Court of Appeals for the Federal Circuit overturned a lower court verdict, which had ordered them to pay nearly \$86 million in damages to Translogic Technology

Inc. for patent infringement, in light of a USPTO re-exam decision that nixed the patent due to obviousness.

Translogic's petition for certiorari was denied earlier this month.

"The decision was not vacated because the district court made some error, but rather the Federal Circuit treated the case as if the patent had not existed," Abrahamsen said.

The In Re Swanson case from last month could also trigger more re-exams. The Federal Circuit ruled that claims of a pregnancy test patent that Syntron Bioresearch Inc. was accused of infringing in a 10-year legal battle were invalid, affirming a USPTO rejection of claims related to a previously approved patent.

The rise in re-exams also means that in some high-profile cases, three proceedings are going on at once – a re-exam, a district court case for damages and an International Trade Commission case for injunctive relief.

"Even if a party loses at the ITC, years later it might receive a Christmas present if the patent is invalidated by the USPTO," Sterne said.

While the USPTO numbers revealed the increasing number of re-exam requests, Sterne said they did not show how often re-exam requests are threatened as part of getting an edge in litigation and licensing negotiations.

"There are a lot of re-exams that are threatened that never see the light of day," he said.

Sterne said it has become a "standard procedure" that if a nonpracticing entity sues a company over a patent, the accused infringer can take an aggressive stance by saying it plans to request a re-exam on that patent-in-suit or even all the NPE's patents.

Sterne said he has also seen re-exam threats in licensing discussions when a party is looking to negotiate a lower royalty rate and when a party is trying to pressure another to obtain a license.

However, getting a re-exam has the potential to backfire, and companies should consider the risks.

One of the appealing aspects of an inter partes re-exam for an accused infringer is that the USPTO does not presume the patent is valid. An accused infringer does not need to prove invalidity with "clear and convincing evidence" as it does in court, but only with a "preponderance of evidence."

But while the burden of proof may be lower, if a patent comes out of a re-exam intact, an accused infringer faces an uphill battle in court, especially after an inter partes re-exam because an accused infringer is banned from raising the same issues in court.

“If you are unable to carry the day with a lower evidentiary burden, the same arguments you used in the re-exam proceeding won’t be accepted in court,” Haracz said. “It’s a gamble.”

While a district court is more likely to stay a case if a re-exam request is filed before the court case or if it is an inter partes request, Sterne noted that courts are becoming less willing to stay a case for a re-exam, and the ITC has refused to grant a stay for that reason.

“Some judges are not going to stay cases as frequently as in the past because they are realizing that the USPTO takes a long time, and they do not want to slow the court case down,” he said.

Historically, defense lawyers opted not to file for a re-exam because if the USPTO did not modify any claims, the patent owner was in a far better place. But now lawyers are saying that the tide has turned.

“With the KSR case and the Central Re-examination Unit, the balance of power has shifted toward the accused infringer side of the scale,” Sterne said.