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INTELLECTUAL PROPERTY

Proposing a post-grant review

Push to adopt a new proceeding stems from concerns over 'poor quality' patents, other factors.

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THERE HAS BEEN A LOT of interest recently in the adoption of a post-grant review or opposition proceeding in the United States through which the validity of an issued patent could be challenged in a U.S. Patent and Trademark Office (PTO) proceeding. The PTO proposed such a system in its 21st Century Strategic Plan promulgated in April 2003, and that view has been embraced in an October 2003 report by the Federal Trade Commission (FTC) and an April 2004 report by the National Academies' National Research Council. See www.uspto.gov/web/offices/com/strat21/action/sr2.htm (PTO plan), www.ftc.gov/os/2003/10/innovationrpt.pdf (FTC report) and www.nap.edu/books/0309089107/html/ (National Academies report).

Various bar groups and others have jumped on the bandwagon with more proposals. A House subcommittee hearing was held on June

24, 2004; legislative proposals have been presented or are in the works; and there may be congressional action this year. See H.R. 5299.

The reason for the current interest in instituting a post-grant opposition proceeding stems from three main factors: concerns about "questionable" or "poor quality" patents that have been asserted against the industry; the continued high cost, length and uncertainty of patent litigation; and the limitations of existing PTO procedures for challenging issued patents and published patent applications. These factors will be examined in turn followed by a summary of the proposals.

There have been a lot of recent references to a perceived problem of "patent quality." For example, in April 2004, intellectual property owners held a one-day "Patent Quality Conference." The overburdened and underfunded PTO has been criticized for the increased pendency of patent applications and for issuing patents described as "questionable," "poor quality," "dubious," "trivial" and even "ridiculous." These criticisms are particularly directed at "business method," software and "e-commerce" patents. Such patents are of relatively recent vintage and the PTO has been criticized for not having access to all of the relevant prior art. Typically, the validity of such patents is called into question.

What is a poor-quality patent? Is it a patent that

the PTO should not have issued because it is not patentable over the prior art? Is it a patent that claims an invention too broadly, or conversely, one where the invention seems to be only a trivial improvement? Or is it simply a patent asserted against your company that you don't like and just can't believe is out there?

Business method, e-commerce patents have been targeted.

It is easy and amusing to find obviously trivial patents with no economic value, such as recent patents directed to carving shapes in a pumpkin (U.S. 6,342,175), eradicating mosquitoes by putting out a container of water and dumping it out before the larvae reach adulthood (U.S. 6,338,220),

making a user-operated device for kicking the user's buttocks (U.S. 6,293,874), and painting using the posterior of an infant (U.S. 6,022,219 and 6,213,778).

The PTO is in the business of issuing patents, and lots of them—almost 170,000 in fiscal year 2004, based on even more applications, more than 350,000, filed in 2004. Some questionable patents are bound to slip through. This is nothing new. Nor will this situation change dramatically if the PTO is adequately funded, is able to hire and train hundreds of new patent examiners and devotes significant additional resources to improving patent quality and reducing pendency. Although some would debate the point, it just is not possible for the PTO to guarantee the quality of all issued patents.

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Of course, there is an economic cost in the presence of poor-quality patents with some commercial applicability. If a questionable but commercially significant patent is enforced, accused infringers may be reluctant to undertake the expensive, time-consuming and uncertain litigation necessary to defeat it. An accused infringer or a competitor may decide to leave the market or submit to an expensive royalty or settlement. Does this promote innovation and competition? Probably not.

Patent litigation

Patent litigation in the United States is expensive, lengthy and uncertain. Some perceive that the patent owner has an advantage because the accused infringer confronts a presumption of patent validity and bears the enhanced burden of proving facts relevant to invalidity by clear and convincing evidence. The statistics also favor patent owners.

Forum shopping is also a factor. Some district courts hear many more patent cases per judge than others. Some may be considered protective of patents. Plus, there are several district courts that have “rocket dockets” where a case proceeds to trial in a matter of months. But even such expedited cases can be very expensive and resource-consuming. Also, in most patent cases there is the almost inevitable appeal to the U.S. Court of Appeals for the Federal Circuit, where as a result of *Markman v. Westview Instruments Inc.*, 515 U.S. 1192 (1996), and its progeny, the important and often dispositive issue of claim interpretation is reviewed de novo as a question of law with little deference to the district court’s rulings. There is a good chance that the Federal Circuit will adopt a different claim interpretation and send the case back to the district court for another go-around. This does not favor prompt resolution.

In addition, patent cases may be very complex. The technology at issue may be complicated and difficult for lay judges and juries to comprehend and there may be many issues to decide. Although the statistics favor patent owners, a defendant in a patent infringement suit does have available a full arsenal of defenses, such as invalidity over the prior art, indefiniteness of the claims, lack of an enabling disclosure, lack of an adequate written description,

failure to disclose the best mode, incorrect inventorship and unenforceability due to inequitable conduct before the PTO. Not to mention arguing for a narrow claim interpretation and noninfringement.

Only one of a defendant’s shots needs to hit its mark to defeat an infringement claim. All of these defenses and the extensive discovery they involve, along with other issues like venue, commercial success, the doctrine of equivalents, willfulness and damages make patent cases more complex, more contentious and more costly; these defenses also add to the cases’ uncertainty.

Proposals differ, but all involve a relatively fast procedure.

Proposals put forward by the FTC and the National Academies would attempt to change the playing field. The FTC recommends reducing the burden of proof on invalidity issues, favoring accused infringers, while the National Academies propose to eliminate subjective issues such as failure to disclose the best mode, inequitable conduct and willfulness, which cuts both ways. Both recommend “reinvigorating” the nonobviousness standard, favoring accused infringers.

All of this is not to say that patent infringement suits do not serve a useful purpose, or that they should not be filed or defended. Numerous patent infringement and declaratory judgment cases are filed each year. About 2,400 patent suits were terminated by district courts in 2002, the vast majority (about 95%) ending in settlement, usually before trial.

Available PTO alternatives

There are several alternative PTO methods for challenging the validity of patent claims both before and after issuance. These include such a simple thing as merely citing relevant prior art to the PTO before or after a patent issues. Another method is to file a one-shot protest to a pending application before it is published or to a pending reissue application after it is published.

Sound confusing? It is.

There are more complex proceedings available, such as requesting an *ex parte* or an *inter partes* re-examination proceeding for an issued patent. The former, adopted in 1980, severely limits a third-party requester’s participation and instead is often used by patent owners to “whitewash” their patents by having the PTO confirm the patent claims over prior art not previously considered. The latter, adopted in 1999 and revised effective January 2004, has an estoppel provision and other procedural drawbacks that have severely limited its use. Neither has served the intended purpose of providing an alternative to litigation. Even though in 1980 the PTO predicted that 2,000 re-examination proceedings would be filed each year, as of the end of 2003, only about 6,800 *ex parte* requests, or about 300 per year, have been filed in total. Similarly, the PTO predicted that 400 *inter partes* requests would be filed in 2000, but in almost five years, only 53 *inter partes* requests have been filed through fiscal year 2004.

An even more complex undertaking is seeking to provoke an interference with a pending application or an issued patent. In order to do this, the challenger has to have its own pending application on the technical subject matter, and there are time limits and other hurdles involved in initiating an interference. Once declared, an interference is a form of litigation before the PTO’s Board of Patent Appeals and Interferences that can be complex, lengthy and expensive, although the board’s goal is to complete them in two years. Court appeals to a district court or the Federal Circuit may follow.

These PTO methods have their benefits and limitations. However, the perception is that, whether taken alone or individually, they are less than adequate for challenging the validity of a commercially significant patent short of litigation.

The recent proposals

All of this has culminated in recent proposals for a post-grant review or opposition proceeding. The proposals differ in many respects, but basically they all propose a contested proceeding before the PTO’s board that will be relatively fast, that will

allow for submissions by experts and their cross-examination, but with limited or almost no other discovery, and that will consist of an oral hearing followed by a written decision that may be appealed to the Federal Circuit, with some binding effect on the unsuccessful challenger.

Similar opposition proceedings have been in place in the European Patent Office (EPO) and in Japan for years, but nobody is proposing adopting an identical proceeding here. Although EPO oppositions are relatively inexpensive and many are filed each year, the main criticism is that they have no time limit and may take too long.

Several questions should be addressed in considering a post-grant opposition system: Is it really necessary? What are the alternatives? What are the desirable features for the proceeding? Will it work? Will anyone use it?

The argument in favor is based on the three factors discussed earlier. Doing nothing is, of course, one alternative. Others are trying yet another fix of *inter partes* re-examination or having a pre-grant opposition proceeding against published applications. Some have advocated setting up a special trial level court for patent cases that would move quickly along the lines of the U.S. International Trade Commission. Others have advocated adopting new procedures in patent litigation. However, none of these alternatives has the same level of support as a post-grant opposition proceeding.

Everyone that supports a post-grant opposition wants it to be fast, desirable, fair and significantly less expensive than litigation, but there are a lot of details to be worked out.

The various proposals specify either a nine- or 12-month time limit for filing but would allow later proceedings if the patent owner consents or if the opposer has been accused of infringement. Note that the EPO has a strict nine-month time limit from patent grant for filing an opposition. All of the proposals seek a prompt result in the PTO—within one year or possibly extendable to 18 months—and all provide for rehearing requests and an appeal to the Federal Circuit.

The PTO proposal would require a threshold showing by the opposer that the opposition request has “substantial merit” before the proceeding goes forward. This is intended to limit harassment of

patent owners. Other proposals require the opposer to file all of its evidence up-front. All proposals allow for evidence in the form of patents, publications, documents and declarations of experts subject to cross-examination. Whether the real party in interest must be disclosed is another issue.

The opposition would proceed as an *inter partes* proceeding heard by the PTO's board, either by one or a panel of three administrative patent judges. The Federal Rules of Evidence would apply to the proceeding. The opposition could be settled prior to a written decision, and any settlement agreement must be filed with the PTO like an interference settlement agreement.

The PTO proposes that all questions of patentability may be raised, as in patent interferences, but not inequitable conduct. Others would exclude additional issues like failure to disclose the best mode and those under 35 U.S.C. 102(c), (f) and (g). The challenge may be to one or more claims of the patent, and the patent owner will have the right to make at least one narrowing amendment directed to the challenged claims. Such an amendment may result in intervening rights under 35 U.S.C. 251. Presumably, claims would be given their broadest reasonable interpretation consistent with the specification, the standard already applicable in other PTO proceedings.

The burden of proof on the opposer would be by a preponderance of the evidence. Other than cross-examination of declarants, the PTO would allow for some controlled and limited discovery. Other proposals would severely limit or virtually eliminate additional discovery by adopting an “interest of justice” standard.

A decision in favor of the patent owner would have an estoppel effect against the opposer as to all issues decided or that could have been raised, but the proposals provide exceptions for certain after-discovered evidence.

The relationship to other court and PTO proceedings involving the same patent such as re-examinations, interferences or reissue applications will need to be addressed. The PTO proposal would abolish *inter partes* re-examinations entirely and would not change patent owner and director-initiated re-examinations. The problem of coordinating

multiple oppositions filed by different parties raises issues such as whether they should be consolidated, left separate or should proceed on the same schedule.

Whether anyone will use such a PTO proceeding remains to be seen, and will depend on how it is set up and whether the PTO is able to commit the necessary resources. The PTO estimated that there would be 300 oppositions filed in 2005. However, if the EPO opposition

Proceeding would operate *inter partes* before PTO board.

experience is of any use, the numbers could be more significant. Historically, the EPO has averaged about 2,000 oppositions filed per year. In 2003, the EPO issued almost 60,000 patents, and 2,600 oppositions were filed. If the same percentage were filed in the U.S. it would mean more than 8,000 oppositions per year. At present, the interference part of the PTO's board that presumably would handle oppositions only deals with about 100 new interferences a year. Discounting the EPO numbers by as much as 90% would still result in more than 800 opposition proceedings a year, or roughly eight times the number of interferences. The PTO estimate of 300 seems low, although the extent of usage will ultimately depend on how desirable the proceeding is to potential challengers.

The push for a PTO post-grant opposition proceeding is gaining strength and could be addressed by Congress in this session. To date, there has been no vocal opposition. Whether a widely used procedure will be created or whether something as inadequate and seldom used as *inter partes* re-examination will result from the legislative process remains to be seen. **NLJ**

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