

The Surprising Efficacy of *Inter Partes* Reexaminations: An Analysis of the Factors Responsible For Its 73% Patent Kill Rate And How To Properly Defend Against It

Andrew S. Baluch and Stephen B. Maebius*
Foley & Lardner LLP

INTRODUCTION

In creating *inter partes* reexamination, Congress hoped to provide a faster, cheaper alternative for resolving questions of patent validity in the U.S. Patent & Trademark Office (USPTO) rather than in the courts. As a measure of the procedure's growing popularity and availability, the rate of requests for *inter partes* reexamination has steadily increased each year, totaling over 308 since the procedure was created in November 1999.¹ But, while the pace of reexam requests continues to increase, the end results of completed proceedings have received relatively little attention.

Here, we report the outcomes of all *inter partes* reexaminations completed as of August 2008. Surprisingly, the proceedings displayed a high 73% "kill" rate (complete elimination of all claims targeted by the requesters) — a rate which is far above that in litigation (33%)² and *ex parte* reexamination (12%)³.

Is the high kill rate explained by the fact that especially weak patents were targeted? Did the patent owners simply give up because the patents were commercially unimportant? Or is *inter partes* reexamination truly the best procedure for a party to use in the U.S. to invalidate a patent?

For both requesters and patent owners, the present study highlights the factors and strategies favoring success in *inter partes* reexaminations. Although the reported statistics appear to favor requesters, a patent owner has unique procedural tools at its disposal both in the courts and at the USPTO.

* The authors are patent attorneys at Foley & Lardner LLP and further acknowledge their past and current involvement in both *ex parte* and *inter partes* reexaminations. The views expressed herein are solely those of the authors and should not be attributed to their firm or any of its clients.

Comments may be directed to smaebius@foley.com.



KEY FINDINGS

- Requester's Success Rate: Third-party requesters succeeded in having all claims cancelled or disclaimed in 73% (22) of the first 30 completed *inter partes* proceedings in which a certificate issued. These early certificates are likely skewed in favor of quick dispositions in which the patent owner simply failed to respond to a first Office action, which occurred in 43% (13) of the proceedings. However, when the patent owner did respond to the first Office action, the requester's success rate fell to 53% (9 out of 17). In any event, the requester's likelihood of a complete victory in *inter partes* reexams is substantially greater than that in *ex parte* cases during the same period: only 12% of all *ex parte* reexams since January 2000 resulted in all claims being cancelled.⁴
- Pendency: The *inter partes* proceedings had an average pendency (measured from request date to certificate issue date) of 33.3 months. Like the requester's success rate, the overall pendency is skewed by the numerous early cases in which the patent owner simply failed to defend its patent. Eliminating these uncontested cases dramatically increases the average pendency up to 42.5 months.
- Grounds of Rejection: In a first Office action, obviousness was the sole ground of rejection in only 20% (6) of the proceedings, whereas anticipation was a ground of rejection in 73% (22) of the proceedings. Nevertheless, obviousness-only rejections did not improve the patent owner's chances of success: 83% (5 out of 6 obviousness-only cases) resulted in all claims being cancelled or disclaimed.
- No Board Decisions: None of the first 30 *inter partes* reexamination certificates was the product of a Board decision. Only one party, a patent owner, filed a notice of appeal, but then dropped the appeal by declining to file an appeal brief. In all cases where examiners found claims to be patentable, the third-party requesters did not bother to appeal the finding.
- Litigation: Five (17%) of the 30 *inter partes* reexaminations involved concurrent litigation between the patent owner and third-party requester. The causes of action were split: 2 declaratory judgment (DJ) actions brought by the third-party requester, and 3 infringement suits brought by the patent owner. The only still-pending cases involve reexaminations favoring the plaintiff: one DJ action in which all reexamined claims were cancelled, and one infringement suit in which all reexamined claims were confirmed.



METHODOLOGY

Every *Inter Partes* Reexamination Certificate issued as of July 31, 2008 was obtained from the USPTO's Official Gazette.⁵ The completeness of this list was confirmed by the sequential number listed on each certificate (i.e., 1st, 2nd, etc.). Using the reexamination control number listed on the certificates, the prosecution history of each proceeding was obtained through the USPTO's public Patent Application Information Retrieval (PAIR) database.⁶ For each proceeding, the reason for the issuance of the certificate was obtained from the Notice of Intent to Issue *Inter Partes* Reexamination Certificate (NIRC) and verified against the prosecution history. Also noted was the stage at which each proceeding had concluded. The examiner's grounds for rejection were obtained from the first Office action on the merits. To determine whether a patent under reexamination was also involved in litigation, a search was performed by entering the patent number into Westlaw's LITALERT database and by searching each patent on LexisNexis. The docket report was obtained for each litigation.



OVERVIEW OF ALL COMPLETED REEXAMINATIONS

Table 1 lists all *Inter Partes* Reexamination Certificates that were issued between November 29, 1999 and July 31, 2008.

Table 1

| Certificate No. | Control No. | Patent No. | Reason for Issuance of Certificate | Pendency (months) | Outcome |
|-----------------|-------------|------------|--------------------------------------|-------------------|-----------------------------------|
| 1st | 95/000,004 | 6,352,486 | PO failure to respond to first OA | 14.7 | All claims canceled |
| 2nd | 95/000,002 | 6,177,102 | PO failure to appeal RAN | 42.0 | All claims canceled |
| 3rd | 95/000,001 | 6,232,427 | PO failure to respond to second OA | 31.2 | All claims canceled or disclaimed |
| 4th | 95/000,095 | 6,689,336 | PO failure to respond to first OA | 14.3 | All claims canceled |
| 5th | 95/000,037 | 6,444,872 | PO disclaimed after first OA | 29.7 | All claims disclaimed |
| 6th | 95/000,047 | 6,520,401 | 3PR failure to appeal RAN | 25.9 | All claims confirmed |
| 7th | 95/000,026 | 6,571,920 | PO failure to file Appeal Brief | 36.8 | All claims canceled |
| 8th | 95/000,041 | 6,520,297 | PO failure to respond to first OA | 37.5 | All claims canceled |
| 9th | 95/000,013 | 6,440,481 | 3PR failure to appeal RAN | 50.1 | Claims changed |
| 10th | 95/000,131 | 6,614,729 | PO failure to respond to first OA | 18.9 | All claims canceled |
| 11th | 95/000,176 | 6,890,906 | PO failure to respond to first OA | 12.6 | All claims canceled |
| 12th | 95/000,111 | 6,116,477 | 3PR failure to appeal RAN | 27.3 | Claims changed |
| 13th | 95/000,027 | 6,577,102 | PO failure to respond to ACP | 50.8 | All claims canceled |
| 14th | 95/000,117 | D504,126 | PO failure to respond to first OA | 25.0 | All claims canceled |
| 15th | 95/000,208 | 6,566,285 | PO failure to respond to first OA | 13.8 | All claims canceled |
| 16th | 95/000,040 | 6,623,378 | PO failure to appeal RAN | 46.7 | All claims canceled |
| 17th | 95/000,024 | 6,524,031 | 3PR failure to appeal RAN (untimely) | 56.0 | Claims changed |



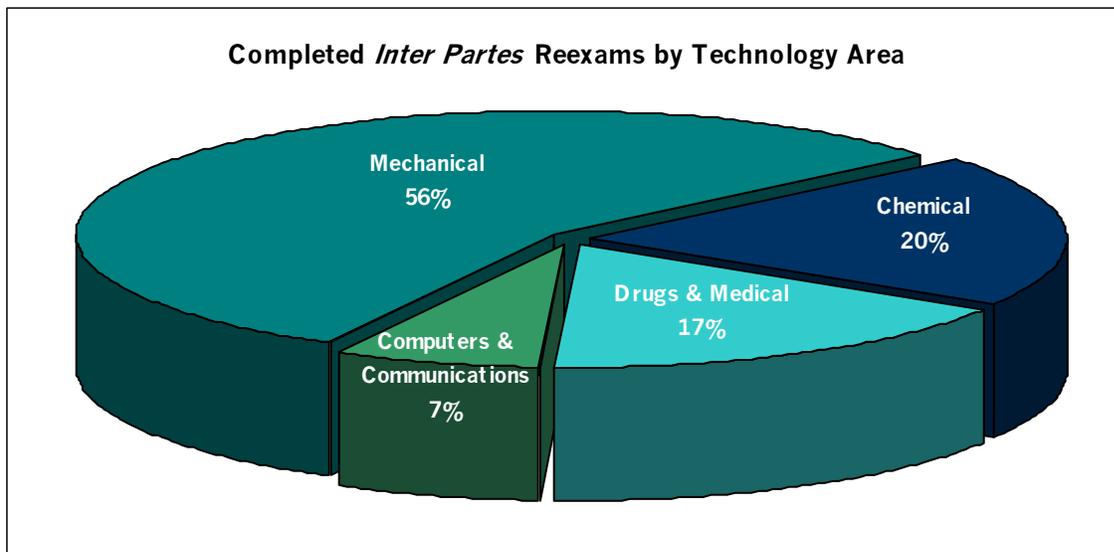
| Certificate No. | Control No. | Patent No. | Reason for Issuance of Certificate | Pendency (months) | Outcome |
|------------------------|--------------------|-------------------|---|--------------------------|-----------------------|
| 18th | 95/000,164 | 7,052,301 | PO failure to respond to first OA | 18.3 | All claims canceled |
| 19th | 95/000,055 | 6,381,942 | PO failure to appeal RAN | 42.0 | All claims canceled |
| 20th | 95/000,132 | 6,808,888 | 3PR failure to appeal RAN | 25.9 | Claims changed |
| 21st | 95/000,059 | 6,616,382 | PO filed disclaimer after first OA | 42.1 | All claims disclaimed |
| 22nd | 95/000,213 | 7,081,542 | PO failure to respond to first OA | 16.1 | Claims changed |
| 23rd | 95/000,056 | 6,641,334 | PO filed disclaimer after ACP | 43.2 | All claims disclaimed |
| 24th | 95/000,085 | 6,872,152 | PO failure to appeal RAN | 38.0 | All claims canceled |
| 25th | 95/000,255 | 6,750,386 | PO failure to respond to first OA | 10.5 | All claims canceled |
| 26th | 95/000,016 | 6,376,217 | PO failure to appeal RAN | 60.5 | All claims canceled |
| 27th | 95/000,116 | 6,553,794 | 3PR failure to appeal RAN | 30.8 | All claims confirmed |
| 28th | 95/000,029 | 6,624,263 | 3PR failure to appeal RAN | 55.6 | Claims changed |
| 29th | 95/000,168 | 7,048,472 | PO disclaimed before first OA | 23.5 | All claims disclaimed |
| 30th | 95/000,023 | 6,354,304 | 3PR failure to appeal RAN | 60.2 | Claims changed |



COMPLETED REEXAMINATIONS BY TECHNOLOGY AREA

Figure 1 illustrates the number of completed *inter partes* reexaminations based on the technology area of the patent.

Figure 1





OUTCOME AND PENDENCY

Table 2 summarizes the outcome and pendency of all proceedings, as well as the outcome and pendency of those proceedings in which the patent owner challenged the third-party requester by at least responding to a first Office action.

Table 2

| | All Claims Cancelled | All Claims Confirmed | Claims Changed | Average Pendency (Median Pendency) |
|--|----------------------|----------------------|----------------|------------------------------------|
| All Proceedings | 73% (22) | 7% (2) | 20% (6) | 33.3 months (31.0 months) |
| Proceedings where PO responded to first OA | 53% (9) | 12% (2) | 35% (6) | 42.5 months (42.0 months) |

Table 3 summarizes the outcome and pendency based on technology area.

Table 3

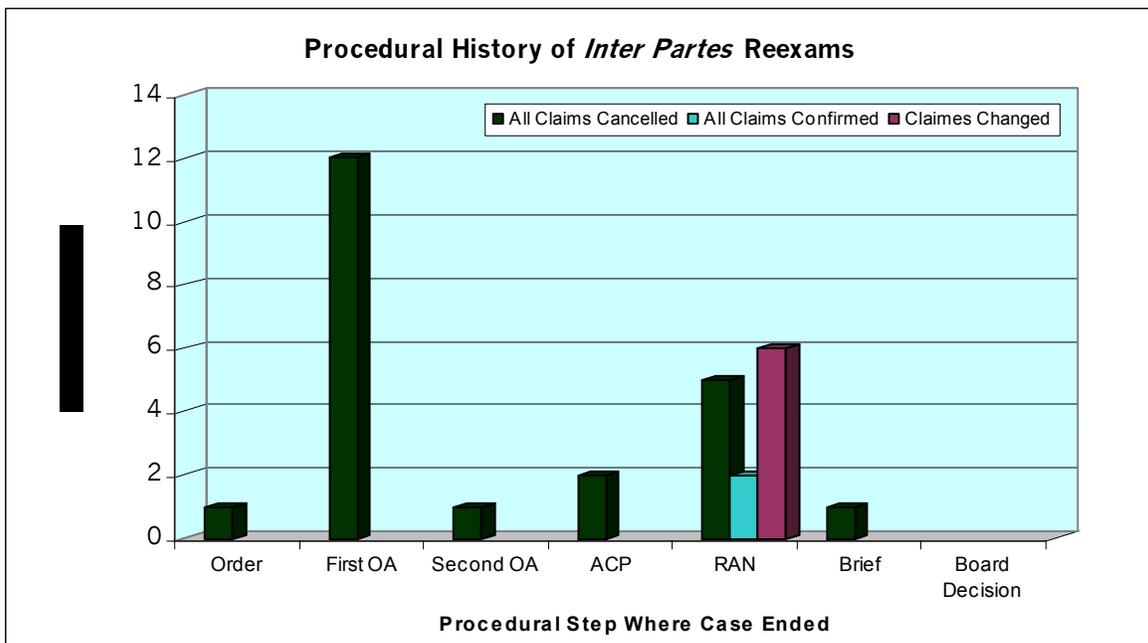
| | All Claims Cancelled | All Claims Confirmed | Claims Changed | Average Pendency (Median Pendency) |
|----------------------------|----------------------|----------------------|----------------|------------------------------------|
| Chemical | 50% (3) | 17% (1) | 33% (2) | 32.2 months (28.6 months) |
| Drugs & Medical | 80% (4) | 0% (0) | 20% (1) | 34.1 months (29.7 months) |
| Computers & Communications | 100% (2) | 0% (0) | 0% (0) | 21.9 months (21.9 months) |
| Mechanical | 71% (12) | 6% (1) | 23% (4) | 34.8 months (37.5 months) |
| All Proceedings | 73% (22) | 7% (2) | 20% (6) | 33.3 months (31.0 months) |



PROCEDURAL HISTORY OF COMPLETED REEXAMINATIONS

As shown above, the outcome and pendency of the first 30 reexaminations depended heavily on whether the patent owner contested the proceeding by responding to a first Office action. To get a sense of the procedural history of the reexams, Figure 2 below shows the last procedural step at which each reexamination was concluded.

Figure 2





CONCURRENT LITIGATION

Table 4 lists all *Inter Partes* Reexamination Certificates in which the patent was involved in a concurrent district court litigation. The cases are roughly split between infringement suits brought by patent owners and declaratory judgment (DJ) actions brought by third-party requesters. The plaintiff in each case is underlined below.

Table 4

| Certificate No. | Request Date | Outcome | Patent Owner | Third-Party Requester | Litigation | Type |
|-----------------|--------------|----------------------|------------------------------|---------------------------------|--|----------|
| 15th | 12/20/2006 | All claims canceled | Pro-Fit Holdings | <u>Tag-It Pacific</u> | <i>Tag-It Pacific v. Pro-Fit Holdings</i> , 2:04cv2694, (C.D. Cal. 4/16/2004) (pending) | DJ |
| 17th | 7/21/2003 | Claims changed | Tric Tools | <u>Earth Tool</u> | <i>Earth Tool v. Tric Tools</i> , 4:03cv150 (E.D. Tex. 4/18/2003) (dismissed 10/7/03) | DJ |
| 18th | 10/6/2006 | All claims canceled | <u>Christiana Industries</u> | Empire Electronics | <i>Christiana Indus. v. Empire Elec.</i> , 2:06cv12568 (E.D. Mich. 6/9/2006) (dismissed 2/22/07) | Infringe |
| 27th | 11/23/2005 | All claims confirmed | <u>Acco Brands</u> | PC Guardian Anti-Theft Products | <i>Acco Brands v. PC Guardian Anti-Theft Prods.</i> , 3:04cv3526 (N.D. Cal. 8/24/2004) (pending) | Infringe |
| 30th | 7/17/2003 | Claims changed | <u>Kiss Nail Products</u> | Entrecap | <i>Kiss Nail Prods. v. Entrecap</i> , 02cv2373 (E.D. NY 4/19/2002) (dismissed 10/30/03) | Infringe |



STRATEGIC CONSIDERATIONS

Inter Partes vs. Ex parte

As the early certificates here demonstrate, requesters in *inter partes* reexaminations have a much higher success rate than in *ex parte* reexaminations. Even in contested proceedings where the patent owners responded to first Office actions, the requester's likelihood of having all claims cancelled or disclaimed in *inter partes* proceedings is 53%, compared to only 12% in all *ex parte* proceedings.⁷ This difference may be explained by the third party's involvement in *inter partes* proceedings (i.e., comments submitted after patent owner's responses), the absence of *inter partes* interviews with the examiner, and the fact that a possible estoppel against a losing requester raises the requester's stakes in making the *inter partes* request.

Aside from frequent claim cancellations, an additional 35% of contested *inter partes* proceedings resulted in claims being changed. Because no claim may be broadened during reexamination,⁸ a narrowing amendment that has sacrificed valuable claim scope may also be considered a victory for third-party requesters.

But requesters must weigh these advantages against a possible estoppel. Unlike requesters in *ex parte* proceedings, a requester who is unsuccessful in an *inter partes* proceeding is forever barred from raising issues in a subsequent litigation if those issues were raised or could have been raised in the prior reexamination.⁹ This means that an *inter partes* requester should not hold back any known prior art patents/publications or invalidity arguments during reexamination.

Licensing Strategies

From the patent owner's perspective, the prospect of a drawn-out *inter partes* validity challenge is not an attractive one. Thus, just as licensors often seek reimbursement from licensees for the cost of prosecuting and litigating the licensed patents, so too should those licensors seek reimbursement for the cost of reexamination. In addition, to further discourage a licensee's incentive to attack the patent, the licensor may seek to negotiate termination of the license in the event the licensee or its privy requests a reexamination of the licensed patent.¹⁰

From the requester's perspective, the large number of uncontested reexams (13 of 30) suggests that certain patent owners will not fight to defend certain patents. The requester should be wary, however, as these early certificates probably overstate the frequency of uncontested proceedings.



Litigation Strategies

- *Stay of Litigation Pending Reexamination*

A patent owner in an *inter partes* reexamination has the unique ability under 35 U.S.C. § 318 to request a stay of concurrent litigation, which will typically be granted unless the stay would “not serve the interests of justice.”¹¹ A third-party requester, by contrast, must rely on a court’s inherent authority to stay the litigation, and the requester’s motion will be treated the same as if it were pending *ex parte* reexamination.¹²

- *Suspension of Reexamination Pending Litigation*

A patent owner may also seek to suspend reexamination under 35 U.S.C. § 314(c) “for good cause.” For example, a suspension may be granted if the litigation has reached the appeal stage at a time when the *inter partes* reexamination is still in its early stages.¹³

CONCLUSIONS

Overall, the high kill rate (73%) and relatively short average pendency (33 months) of the first 30 *inter partes* reexaminations are likely skewed by the large number of cases in which the patent owner simply failed to respond to a first Office action (43%), as well as by the complete absence of Board appeals. When only contested reexams are included, the average pendency jumps to 42.5 months.

Nevertheless, in contested cases where the patent owner does respond to Office actions, the 53% kill rate is still higher than in litigation and *ex parte* reexamination. These results demonstrate the effectiveness of third-party participation and motivates a closer look at a European-style opposition system.

¹ USPTO *Inter Partes* Reexamination Filing Data (Sept. 30, 2007).

² See Kimberly A. Moore, *Judges, Juries, and Patent Cases – An Empirical Peek Inside the Black Box*, 99 MICH. L. REV. 365 (2000) (between 1983 and 1999, validity was upheld in 67% of cases — 64% of bench trials; 71% of jury trials).

³ See Dennis Crouch, *Ex Parte Reexamination Statistics II*, Patently-O, available at <http://www.patentlyo.com/patent/2008/06/ex-parte-reexam.html> (posted Jun. 25, 2008) (between January 2000 and June 2008, all claims were cancelled in 12% of proceedings).

⁴ See Crouch, *supra*. See also USPTO *Ex Parte* Reexamination Filing Data (Dec. 31, 2007) (reporting 12% cancellation rate for all *ex parte* reexams initiated by third-party requester).



⁵ USPTO Official Gazette Notices, *available at* <http://www.uspto.gov/go/og/index.html> (last accessed July 31, 2008). Latest available: Vol. 1332 Number 5, July 29, 2008.

⁶ USPTO Public PAIR, *available at* <http://portal.uspto.gov/external/portal/pair> (last accessed July 31, 2008).

⁷ See Crouch, *supra*. See also, USPTO *Ex Parte* Reexamination Filing Data, *supra*.

⁸ 35 U.S.C. § 314(a).

⁹ *Id.* at § 317(b).

¹⁰ Lynn E. Hvalsoe, *A Survey of Licensing Strategies One Year After MedImmune*, AIPLA WINTER MEETING, at 4-5 (2008) (proposing sample licensing provisions that terminate the license in the event of a validity challenge).

¹¹ *Microunity Systems Engineering, Inc. v. Dell, Inc. et al.*, Case No. 2-04-CV-120 (TJW) (E.D. Tex. Aug. 15, 2005) (Order Denying Stay) (“Section 318 of the Patent Act . . . provides a patent owner with a greater ability to obtain a stay if one is requested.”).

¹² *Ethicon, Inc. v. Quigg*, 849 F.2d. 1422, 1426-27 (Fed. Cir. 1988) (“Courts have inherent power to manage their dockets and stay proceedings, including the authority to order a stay pending conclusion of a Patent Office [*ex parte*] reexamination.”). See *Microunity*, No. 2-04-CV-120 (“[W]hen requested by a defendant, this Court’s analysis of whether to grant a stay pending *inter partes* reexamination is treated similarly to a request for a stay based on an *ex parte* reexam.”).

¹³ *Sony Computer Entertainment Am., Inc., v. Dudas*, 2006 WL 1472462, *7 (E.D. Va., May 22, 2006) (holding that “the PTO did not abuse its discretion in concluding that there was good cause to suspend reexamination of the litigated claims in light of the more advanced Federal Circuit appeal focusing on the same claims and the operation of the statutory estoppel”).