

TOO MUCH, TOO LITTLE, OR JUST RIGHT? A GOLDBLOCKS APPROACH TO PATENT REEXAMINATION REFORM

KATHARINE M. ZANDY*

INTRODUCTION

One-Click Shopping. The Most Advanced Bra Ever. Peanut Butter and Jelly Sandwiches. Which of the three is patentable? The answer may be none, but companies applied for patent protection for all three of these products, the United States Patent and Trademark Office approved two of them, and the Federal Circuit has since invalidated both.¹ Patents are required to meet standards of novelty, nonobviousness and utility,² but many issued patents may actually fail to meet those criteria, resulting in tremendous uncertainty about what is and is not legally patentable. The United States Patent and Trademark Office (PTO) has been widely criticized for lacking the resources to effectively review patents at the application stage and consequently granting large numbers of patents that do not meet the statutory requirements.³ Moreover, because of the time and cost necessary to challenge patents in litigation, the vast majority of these “bad patents” are left unchallenged. The patent system currently lacks a viable and widely used method of challenging issued patents, which stifles innovation and introduces confu-

* J.D. candidate, New York University School of Law, 2006; B.A., Princeton University, 2003. The author wishes to thank Chad Atlas and her family for their love, advice, and support, and Professor Niva Elkin-Koren for her helpful comments on earlier drafts.

1. The Federal Circuit invalidated Amazon.com’s patent for one-click shopping in 2001. *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343 (Fed. Cir. 2001). Victoria’s Secret has recently introduced its IpeX bra as “the result of an international collaboration of designers, scientists and engineers” and publicized the bra’s design as “patent pending.” See Ellen Warren, *Test Driving the IpeX*, CHI. TRIB., May 5, 2005, At Play, at 4. Most recently, the Federal Circuit struck down Smuckers’ patent for its peanut butter and jelly “un crustables” sandwich. *In re Kretchman*, 125 Fed. Appx. 1012 (Fed. Cir. 2005).

2. 35 U.S.C. §§ 101–103 (2000).

3. See, e.g., John R. Allison & Mark A. Lemley, *The Growing Complexity of the United States Patent System*, 82 B.U. L. REV. 77, 135 (2002) (“PTO examiners spend startlingly little time on a patent—an average total of only eighteen hours over three years.”); Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 Nw. U. L. REV. 1495 (2001) [hereinafter *Rational Ignorance*] (noting recent academic criticism of the PTO); *Patent Nonsense*, ECONOMIST, April 8, 2000, at 78 (“[P]atent Examiners spend only eight hours on a patent, on average.”).

sion into investment decisions, resulting in tension and uncertainty for patent-holders, their competitors, and the public.

As a result of the financial and social costs associated with granting a large number of improper patents, Congress created patent reexamination as a way to challenge improper patents without invoking the time and cost of litigation, and increase the reliability of the PTO's patent determinations by the reexamination of patents thought "doubtful."⁴ Presently, Congress has established two procedures: *ex parte* and *inter partes* reexaminations.⁵ Unfortunately, thus far the two reexamination procedures have failed to become widely-used methods of challenging patents. As a result, competitors are more often resorting to burdensome litigation or inefficient licensing schemes for patents that are likely to be invalidated or limited if challenged. Recently, though, public interest groups have begun to use reexamination to challenge anti-competitive patents and have achieved some success, which could indicate that the current reexamination procedures are useful and effective. At the same time, two recent proposals by the Federal Trade Commission (FTC) and the National Academy of Sciences (NAS) suggest implementing drastic changes in the current procedures, which risk overwhelming the PTO's scarce resources and may jeopardize the increasing use of reexamination.

This Note will explain the current proposals for reexamination reform, tell the story of public interest groups' use of the current procedures, and make some suggestions as to the direction of future reform. Section I discusses the flaws in the patent system that critics have leveled against the PTO and examines the need for a viable reexamination method to correct these flaws. Section II chronicles the history and enactment of the current reexamination procedures and discusses the broad goals of reexamination reform and the differing ways to achieve them. Section III explores the two proposals for reexamination reform offered by the FTC and NAS, along with the reasons that their changes are unwise. Drastic reform risks over-stimulating the use of reexamination, subjecting patent-holders to harassment from competitors. Concurrently, it risks eradicating the small amount of use that present reexamination methods have recently enjoyed, destroying any possibility that such use might become more widespread. Section IV describes the recent public interest group use of reexamination to challenge im-

4. H.R. REP. NO. 96-1307, at 3-4 (1980), *reprinted in* 1980 U.S.C.C.A.N. 6460, 6462.

5. Act to Amend the Patent and Trademark Laws, Pub. L. No. 96-517, 94 Stat. 3015 (1980) (codified at 35 U.S.C. §§ 301-307).

proper and overbroad patents, and Section V concludes with recommendations for patent reexamination reform. Ultimately, this Note proposes that the best choice is to implement smaller changes targeted directly at increasing the use of the current reexamination procedures in order to increase parties' incentives to invoke reexamination without turning it into a duplicate of the litigation process.

I.

FLAWS IN THE PATENT SYSTEM

A. *The Patent Application Review Process*

Patent protection exists in order to promote innovation by granting limited monopolies to inventors for their creations, and a desirable patent is one that “covers an invention that would not otherwise be made or one that ensures that a good idea is commercialized by providing a temporary monopoly to the patent holder.”⁶ To achieve this goal, patent law has required patents to meet three statutory standards—novelty, nonobviousness and utility.⁷ Unfortunately, within that framework the PTO is widely criticized for the poor quality of its review process during the application stage and the shaky validity of the patents that it approves. Data on patent examinations is disheartening. The PTO estimates that 300,000 patent applications are filed each year, “arriv[ing] at the rate of about 1,000 each working day.”⁸ The number of staff members available to process these applications is approximately 3,000, and estimates suggest that an officer spends as few as 8 hours reviewing each application, or as many as 25.⁹ During this time, the officer must “read and understand the application, search for prior art, evaluate patentability, communicate with the applicant, work out necessary revisions, and research and write up conclusions.”¹⁰ Moreover, the PTO's compensation system could serve as a further hindrance of patent quality, as its bonus structure is based primarily

6. Bronwyn H. Hall & Dietmar Harhoff, *Post-Grant Reviews in the U.S. Patent System—Design Choices and Expected Impact*, 19 BERKELEY TECH. L.J. 989, 991 (2004).

7. 35 U.S.C. §§ 101–103 (2000).

8. FED. TRADE COMM'N, *TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY* ch. 5, at 4 (2003) [hereinafter *FTC Report*], <http://www.ftc.gov/os/2003/10/innovationrpt.pdf>.

9. *Id.* at 4–5.

10. *Id.* at 5. Prior art is used to establish whether the invention seeking patent protection is nonobvious, and it “includes both references in the art in question and references in such allied fields as a person with ordinary skill in the art would be expected to examine for a solution to the problem.” 2 DONALD S. CHISUM, *CHISUM ON PATENTS* § 5.03[1] (2005).

on patent “dispositions,” which are “final allowances or rejections of patents.”¹¹ The bonus system thus entices PTO officers to finish reviewing each application as soon as possible.¹² Professor Mark Lemley asserts that because of “bizarre”¹³ processing regulations, “it is impossible to reject a patent once and for all,”¹⁴ since an applicant may refile his patent application an unlimited number of times, despite previous rejection.¹⁵ He also notes that “examiners must write up reasons for rejection, but not reasons for allowance, giving them more incentives to allow rather than reject an application.”¹⁶ Still, critics express tremendous concern about the backlog of patent applications and the delay in processing them.¹⁷

B. Harmful Impacts

Low standards for patent approvals have a tremendous impact on businesses and competition. With an ineffectual review process, a wide range of patents are granted that fail to satisfy the requirements of novelty, nonobviousness, and utility. Scholarship refers to patents that fail to meet these statutory standards but are granted due to PTO oversight as “bad patents.”¹⁸ Although these patents

11. See Robert P. Merges, *As Many as Six Impossible Patents Before Breakfast: Property Rights for Business Concepts and Patent System Reform*, 14 BERKELEY TECH L.J. 577, 607 (1999).

12. *Id.* (“The only way to earn bonus points with confidence is to allow a patent application.”).

13. See *Rational Ignorance*, *supra* note 3, at 1496 n.3 (construing 37 C.F.R. §§ 1.60(b)(4), 1.62).

14. *Id.*

15. *Id.*

16. *Id.* (discussing additionally the PTO’s “reengineered” mission statement, rearticulating its goal as helping its customers get patents). Lemley argues that this shift is “indefensible” and that the “idea that applicants, rather than the public at large, are the intended beneficiaries of the patent system cannot help but contribute to the push to issue patents regardless of quality.” *Id.*

17. *FTC Report*, *supra* note 8, ch. 5, at 5.

18. See, e.g., Edward Hsieh, Note, *Mandatory Joinder: An Indirect Method for Improving Patent Quality*, 77 S. CAL. L. REV. 683 (2004). However, there is no universally accepted term for patents that are issued by the PTO but do not meet the statutory standards for patents, and different sources refer to them by different terms—the FTC’s report, for instance, refers to such patents as “improvidently granted patents or patents of improper breadth.” See, e.g., *FTC Report*, *supra* note 8, ch. 5, at 1. Although these patents are technically valid, in that they have been issued by the PTO and their owners may sue for infringement, they are likely to be invalidated if subjected to litigation or an administrative challenge. This Note adopts the terms “bad” or “improperly granted” patents to refer to patents of this type. However, it is important to note that in reexamination, patents may only be challenged based on prior art. See 4 CHISUM, *supra* note 10, at § 11.07[4][a][iv]. In litigation, however, patents may be challenged on a variety of other grounds.

are likely to be invalidated if litigated or reexamined, they largely remain active because they are rarely challenged. These bad patents may then stifle competition by allowing larger patent holders to intimidate and dominate smaller companies. Companies can profit simply by “suing individual small companies, who will most likely settle rather than incur the costs of litigation.”¹⁹ The patent-holder simply finds smaller companies that are potentially infringing on its improperly granted patent and gives them notice of infringement, offering a choice between paying a licensing fee or spending several years and up to millions of dollars litigating the validity of the patent. Not surprisingly, most small businesses choose to pay a few thousand dollars rather than incur the time and expense of litigation.²⁰ Consequently, bad patents continue to go unchallenged, and companies use them to essentially extort money from competitors.

Furthermore, even without purposeful exploitation, there are other reasons why granting a large number of bad patents is detrimental to the economy as a whole. Primarily, bad patents produce a chilling effect on potential competitors, as overbroad patents have the potential to stifle new innovation.²¹ Bad patents “distort firms’ research choices and influence them to shun whole areas of R&D activity.”²² Concerns of patent infringement lead companies to avoid focusing their resources on areas covered by their competitors’ patents, even if the patents may have been improperly granted. Consequently, no new development in those areas occurs. Moreover, the potential for future litigation over patent infringement “can scare away venture capital.”²³ The ultimate loser, then,

PATENT LITIGATION § 1:3.3 (Laurence H. Pretty ed., 2003). Thus, under the current reexamination procedures, the only types of “bad patents” that will be struck down are those for which prior art indicates that they are overly broad or improperly granted. As Part V will discuss, however, there is a strong argument to be made for expanding reexamination to consider all claims of patent invalidity that may form the basis for challenges in litigation.

19. Hsieh, *supra* note 18, at 685.

20. *See id.* at 685–87 (documenting such a scenario involving PanIP, a company that owned a patent for using “graphical and textual information on a video screen for purposes of making a sale,” *id.* at 685, and who sued over fifty small companies it claimed were infringing on its patent, demanding \$5000 in licensing fees from each one); *see also* Hall & Harhoff, *supra* note 6, at 993 (“paying licensing fees may be cheaper than going to court, even if the patent in question is viewed as low quality by the accused infringer”).

21. Hall & Harhoff, *supra* note 6, at 993 (discussing the fact that bad patents “slow the pace of invention in fields characterized by cumulative invention”).

22. *FTC Report*, *supra* note 8, ch. 5, at 2.

23. *Id.*

is society as a whole, which bears the cost of providing the patent-holder's monopoly, but receives less future innovation as a result. As a cumulative result, bad patents essentially bring to a standstill any additional development in the area that they cover.

Finally, the costs of patent litigation are exceptionally high,²⁴ and thus competitors are unlikely to challenge bad patents in courts. Two commentators state, "patent litigation tends to be exceptionally costly, with legal expenses often exceeding one million dollars per party . . ." ²⁵ Discovery in patent cases tends to be complicated and painstakingly time consuming, which increases the cost of lawsuits substantially.²⁶ Moreover, patent cases rely heavily on expensive expert witnesses, who must be prepared extensively and often necessitate lengthy testimony.²⁷ At the same time, the outcome of litigation is extremely uncertain; studies have shown that courts uphold patents in between 35% and 54% of cases, varying widely by region and court.²⁸ Last, due to standing requirements, groups working in the public interest are unable to challenge patents in litigation altogether. As a result of the uncertainty, cost, and difficulty of pursuing litigation, a viable alternative mechanism for challenging patent validity is crucial to the overall functioning of the patent system.

C. *Potential Solutions in the Initial Review Process*

Could the problem of bad patents be solved by increasing the efficacy of the initial review during the application process? Mainly due to practical considerations, this seems unlikely. The PTO is attempting to provide a thorough review of patent applications with its current resources, and is finding itself tremendously over-

24. Zachary Roth, *The Monopoly Factory: Want to Fix the Economy? Start By Fixing the Patent Office*, WASH. MONTHLY, June 1, 2005, at 12 ("The cost of challenging a patent in the courts averages \$ 1 million.").

25. John R. Allison & Mark A. Lemley, *Empirical Evidence on the Validity of Litigated Patents*, 26 AIPLA Q.J. 185, 187 (1998) [hereinafter *Litigated Patents*].

26. Danny Ciraco, *Forget the Mechanics and Bring in the Gardeners*, 9 U. BALT. INTELL. PROP. L.J. 47, 68-69 (2000).

27. *Id.* at 69.

28. Compare GLORIA K. KOENIG, PATENT INVALIDITY: A STATISTICAL AND SUBSTANTIVE ANALYSIS § 4.02 (REV. ED. 1980) (concluding that patents *are found* valid 35% of the time) with *Litigated Patents*, *supra* note 25, at 205, 246-50 (concluding that courts uphold patents 54% of the time). Koenig conducted her study between 1953-1978, and before the creation of the Federal Circuit, and Lemley's study is more recent, from 1989-1996. Thus, Allison & Lemley's study seems to suggest that patents have begun to fare better in the courts. However, a 54% rate of validity is still certainly a deterrent to investors, and a strong incentive to avoid litigation through licensing.

whelmed.²⁹ Thus, without a major overhaul of the application process, or a drastic increase in the PTO's funding, it seems unlikely that it can provide the necessary scrutiny to ensure that each granted patent truly meets the statutory requirements.

Furthermore, it has even been suggested that intense review during the application process is actually a waste of the PTO's resources. Mark Lemley has prominently argued that it may be more efficient, in practice, to allow litigation to settle questions of patent validity, rather than forcing the PTO to put more time and effort into the initial inspections of patent applications.³⁰ At the moment, the PTO is incapable of providing much scrutiny. Given the time constraints on its officers and the long backlog, Lemley writes, "[i]t is not surprising, therefore, that the PTO issues many patents that would have been rejected had the examiner possessed perfect knowledge."³¹ But Lemley argues that the answer is not to increase the knowledge and resources of the PTO or to allow patent examiners to seek more information and spend more time on each application.

Lemley begins his argument by noting that "[o]f the roughly two million patents currently in force, only a tiny number are the basis for lawsuits each year. About 1,600 patent lawsuits are filed each year, involving at most 2,000 different patents."³² On the other hand, he points out that a large number of issued patents lapse for failure to pay required maintenance fees.³³ This is largely because most patents do not provide revenue for the patent-holder;

29. See Rebecca S. Eisenberg, *Patenting the Human Genome*, 39 EMORY L.J. 721, 741-42 (1990) (noting that the PTO's backlog for biotechnology patents has resulted in a potential lag of four to five years before the patent examiner reaches a final decision); see also John R. Allison & Emerson H. Tiller, *The Business Method Patent Myth*, 18 BERKELEY TECH. L.J. 987, 1065 (2003) (noting that "dramatic increases in the number of patent applications in recent years" have strained the PTO's resources, "resulting in longer average pendency times in all technology areas").

30. See *Rational Ignorance*, *supra* note 3, at 1531 ("For the PTO to gather all the information it needs to make real validity decisions would take an enormous investment of time and resources. These decisions can be made much more efficiently in litigation . . ."). The FTC cites this article in its proposal. See, e.g., *FTC Report*, *supra* note 8, Executive Summary, at 7 n.24. Lemley was also a panelist at the hearings that influenced the Commission's Report. *Id.* app. 1, at A-12 (listing the contributors to the FTC/DOJ hearings).

31. See *Rational Ignorance*, *supra* note 3, at 1500 ("The total average time the examiner spends on all these tasks over the two- to three-year prosecution of the patent is eighteen hours.").

32. *Id.* at 1501.

33. *Id.* at 1503, 1504 Table 3 (demonstrating that nearly two thirds of all issued patents by the end of their term have lapsed due to the nonpayment of rela-

Lemley points out that many patents are sought for strategic reasons, such as potential licensing opportunities or defensive patenting.³⁴ Lemley suggests that the percentage of issued patents that actually earn revenue is around five percent.³⁵

Further, there are surprisingly high costs for patent applicants in seeing an application through to issuance or rejection. Because of lawyers' fees and interactions with the PTO, Lemley estimates the total cost of filing an application is approximately \$20,000 per patent—for a total cost annually of \$3.94 billion.³⁶ Moreover, continuing patent applications³⁷ add an additional \$5,000 per patent and \$391 million annually, totaling \$4.33 billion.³⁸ Lemley calculates that in adopting a more efficient application process, we would spend an additional \$1.52 billion, in order to avoid \$262 million in litigation costs.³⁹ Thus, the total cost of the litigation that would be saved by greater application scrutiny would be miniscule in comparison to the extra resources spent allowing PTO examiners to devote more time to each initial patent application.

Because of the tremendous inefficiency in changing initial application review, Lemley promotes a theory of "rational ignorance" for the PTO.⁴⁰ He asserts that people "intuitively recognize that we simply cannot afford perfect decision making in each of the hundreds of thousands of cases on which the PTO has to make decisions,"⁴¹ and should understand that "money spent improving the

tively low fees, and nearly half of all issued patents lapse within the first half of their patent term).

34. *Id.* at 1504–47. Lemley defines defensive patenting as what occurs when companies obtain patents "to stake their claim to an area of technology in hopes of preventing other companies from suing them." *Id.* at 1504. *But see* Arti K. Rai, *Engaging Facts and Policy: A Multi-Institutional Approach to Patent System Reform*, 103 COLUM. L. REV. 1035, 1083 (2003) (critiquing Lemley's analysis but admitting that "it is difficult to quantify the costs imposed by the chilling effect of patents or by portfolio races and other nontraditional uses of patents").

35. *Rational Ignorance*, *supra* note 3, at 1507.

36. *Id.* at 1499.

37. *See* 4A CHISUM, *supra* note 10, at § 13.01 ("A person who has filed one application for a patent . . . may file a subsequent or continuation application. If the continuation application meets the requirements of continuity of disclosure, copendency, cross-referencing, and identity of inventorship, it will gain the benefit of the filing date of the prior application in determining patentability and priority."); *see also* 35 U.S.C.S. § 120 (establishing the copendency requirement, which requires that the continuing patent application must be filed before "the patenting or abandonment of or termination of proceedings on the first application").

38. *Rational Ignorance*, *supra* note 3, at 1499.

39. *Id.* at 1509–10.

40. *Id.* at 1497.

41. *Id.* at 1511.

PTO examination procedures will largely be wasted on examining the ninety-five percent of patents that will either never be used, or will be used in circumstances that don't crucially rely on the determination of validity."⁴² Thus, he believes that the public and the legal community is, and should be, willing to accept a low degree of scrutiny from the patent office for initial patent applications that can be corrected in crucial cases through litigation.

Lemley's analysis has significant flaws. Foremost, it fails to consider the potential chilling effects on patent competitors and the decreased innovation that would occur as a result. Such an effect is difficult to quantify, and yet has a major impact on the overall public benefit of the patent regime. Patent protection exists not simply to reward the inventor—it also creates incentives to produce useful inventions, which enter the public domain after the patent's term expires. As such, chilling effects make the entire patent system less useful for society, a tremendous cost that is not considered in Lemley's quantitative breakdown. Moreover, his analysis ignores the costs incurred by lawsuits that settle, not to mention the enormous costs that companies will pay for licenses—even on bad patents—because they can not afford to litigate. As such, Lemley's analysis does not decisively prove that an *ex post* approach to bad patents is the best way to solve the problems that plague the patent system.

However, since the "grey area" of patents that stifle competition and evoke unfair licensing fees are often the targets of reexamination challenges, a viable reexamination process would provide an effective way to address the improperly granted patents that are never disputed in litigation. Thus, without deciding whether an *ex post* or *ex ante* solution is preferable, this paper asserts that a reliable reexamination procedure will unquestionably improve the quality of the patent system by providing an outlet for challengers to question patents without bearing the burdens of litigation.

II.

THE HISTORY AND CURRENT FORMS OF PATENT REEXAMINATION

A. *Ex Parte* Reexamination

The 1980 Reexamination Act⁴³ established an *ex parte* patent reexamination proceeding. Under the Act, any person could request a reexamination of any patent by filing a written request with

42. *Id.*

43. Act to Amend the Patent and Trademark Laws, Pub. L. No. 96-517, 94 Stat. 3015 (1980) (codified at 35 U.S.C. §§ 301–307).

the PTO and submitting prior art that raised a substantial new question of patentability.⁴⁴ In *ex parte* reexaminations, patents were only challengeable “on the basis of patents or printed publications.”⁴⁵ The requestor could not include any explanations or arguments about the prior art—it could only submit evidence for the PTO to review. The structure of the reexamination was largely the same as the initial application examination process—if the PTO accepted the challenger’s request, it would conduct the process without any involvement from the requesting party, and ultimately issue a nullification of the patent, modify it, or uphold it. A nullification or modification could not be appealed. Further, patent examiners in reexamination were not bound by the “clear and convincing evidence” standard that courts abide by, but instead by a “preponderance of the evidence” standard.⁴⁶

The Act was originally introduced as a solution to several Congressional concerns about patent litigation. First, Congress concluded that litigation was an overly expensive solution for issues of patent validity.⁴⁷ Second, it considered the extensive and widespread concern regarding the high rate of patent nullification in litigation proceedings.⁴⁸ Judges were extremely skeptical about the validity of patents that the PTO had issued, and this doubt drastically impacted their decisions. One scholar reported, “judicial opinions and commentaries from the time . . . evince [a] deeply-felt concern: a fundamental lack of trust in the competency of the PTO to discover sources of relevant prior art and apply them properly

44. See 35 U.S.C. § 303 (2000).

45. 37 C.F.R. § 1.552 (2004).

46. *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1427 (Fed. Cir. 1988). However, in practice there may not be a strong difference in the degree of evidence required in litigation compared to reexamination. Judicial skepticism of issued patents serves to diffuse the “clear and convincing evidence” standard, and commentators have noted concern that “cognitive dissonance” could lead PTO officers to be reluctant to invalidate patents that they had previously approved. See, e.g., Jay P. Kesan, *Carrots and Sticks to Create a Better Patent System*, 17 BERKELEY TECH. L.J. 763, 780 (2002) (“Post-decisional cognitive dissonance suggests that after the Patent Office has already decided to grant a patent it will be inclined to require a greater quantum of evidence to revoke a patent than is objectively necessary based on the new evidence.”).

47. Joseph Farrell & Robert P. Merges, *Incentives to Challenge and Defend Patents: Why Litigation Won’t Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help*, 19 BERKELEY TECH. L.J. 943, 965 (2004).

48. See N. Thane Bauz, *Reanimating U.S. Patent Reexamination: Recommendations for Change Based Upon a Comparative Study of German Law*, 27 CREIGHTON L. REV. 945, 946–47 (1994) (documenting discussions of patents’ “extremely poor rate of . . . survival” during litigation from 1966 to 1981).

under the statutory standards”⁴⁹ Third, many of these judicial invalidations of patents occurred because of evidence of prior art—estimates showed that courts invalidated up to seventy-five percent of all challenged patents based on prior art not considered by the PTO during the patent’s application process.⁵⁰ Thus, a procedure in which patents could be challenged based on newly discovered prior art was considered necessary to avoid expensive and time-consuming litigation.

Concurrently, the legislative history of the 1980 Reexamination Act conveys that Congress also worried that allowing a reexamination proceeding could lead to harassment of patent holders by competitors and third parties.⁵¹ “[C]oncern about the strategic abuse of reexaminations led to severe limitations on third parties’ rights to participate in the process once a reexamination was launched.”⁵² The proposals for patent reform were shaped by these dual influences: the necessity of providing a way to challenge patents without resorting to litigation, and the necessity of protecting patent holders from harassment by competitors by limiting the requestor’s involvement in the process.

Commentators have pointed out numerous flaws in the *ex parte* proceedings codified in the 1980 Act. Primary among them have been the near-complete lack of challenger participation—while the patent-holder may communicate with the PTO on a limited basis, the challenger’s involvement ends with the submission of the request, unless the patent-holder files a reply, and then the challenger is allowed to respond.⁵³ Meanwhile, the patent-holder “has many opportunities to reframe the issue, rebut the evidence, and

49. Mark D. Janis, *Rethinking Reexamination: Toward a Viable Administrative Revocation System for U.S. Patent Law*, 11 HARV. J.L. & TECH. 1, 9–10 (1997).

50. Bauz, *supra* note 48, at 947 (citing Koenig, *supra* note 28, at § 5.05[4]).

51. Farrell & Merges, *supra* note 47, at 965 (referencing H.R. REP. NO. 96-1307, at 4 (1980), *reprinted in* 1980 U.S.C.C.A.N. 6460, 6463 (1980); *see also* Bauz, *supra* note 48, at 947–48 (noting Congress’ worry that the proposed procedure would make “PTO reexamination . . . a first hurdle and undoubtedly not the last hurdle for the patent owner,” and that “the same prior art considered during reexamination as well as the same validity issues before the PTO would be presented again before the district court for purposes of ascertaining validity.” In the end, concerns over this bill served to shift the focus away from concerns of patent nullification during litigation, and toward providing an alternative procedure that would “discourage patentee’s [sic] from asserting their property grant in court.”).

52. Farrell & Merges, *supra* note 47, at 965.

53. *See* 37 C.F.R. § 1.550(g) (“[A]ctive participation of the *ex parte* reexamination requester ends with the reply pursuant to § 1.535, and no further submissions on behalf of the reexamination requester will be acknowledged or considered.”); *see also* 37 C.F.R. § 1.535 (“If the patent owner does not file a state-

otherwise put its own spin on the information.”⁵⁴ Furthermore, even this minimal amount of participation can be preempted if the patent-holder files the reexamination request itself.⁵⁵ Evidence suggests that at least one half of all *ex parte* reexaminations are requested by the patent-holder to strengthen an existing patent.⁵⁶ Thus, “partial control over the [litigation] process and an opportunity to appeal often outweigh the downside of litigation costs,”⁵⁷ and accordingly, competitors choose litigation and not reexamination to file patent challenges.

Furthermore, one commentator criticized *ex parte* proceedings for the narrow substantive grounds on which they allow reexaminations and their failure to offer a real substitute for full-scale litigation.⁵⁸ In the 1980 Act, prior art that the PTO had considered during the patent application process could not form the basis for a reexamination challenge—instead, reexamination could only consider prior art that had not been previously examined.⁵⁹ Until 2001, *ex parte* reexamination was restricted to those inflexible terms, although now the proceedings may include new arguments based on previously considered prior art.⁶⁰ The fact that challengers may only request reexaminations based on prior art claims has drawn criticism, since many other types of claims may form the basis for patent challenges in litigation proceedings.⁶¹

ment under § 1.530, no reply or other submission from the *ex parte* reexamination requester will be considered.”).

54. Farrell & Merges, *supra* note 47, at 965.

55. Kristen Jakobsen 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, 233 (2003).

56. *FTC Report*, *supra* note 8, ch. 5, at 16 n.115.

57. Osenga, *supra* note 55, at 233.

58. *See, e.g., id.*, at 233–34.

59. *In re Portola Packaging*, 110 F.3d 786, 791 (Fed. Cir. 1997).

60. *See* 21st Century Department of Justice Appropriations Authorization Act, Pub. L. No. 107-273, § 13105, 116 Stat. 1900 (2002) (amending §§ 303(a) and 312(a) of Title 35, *ex parte* and *inter partes* reexamination proceedings, to include issues which raise “a substantial new question of patentability” even though they were “previously cited by or to the [PTO] or considered by the [PTO]”).

61. Osenga, *supra* note 55, at 234 (stating that patents may not be challenged on “questions of utility, on-sale bars, adequate disclosure, inventorship, public use, and inequitable conduct”). For those unfamiliar with patent law, the on-sale bar prohibits patenting an invention that has previously been patented or described in a publication in the U.S. or a foreign country, or was previously in public use for more than a year before the date of the patent application. 35 U.S.C. § 102(b) (2000). The other challenges focus on the conduct of the patent-holder (adequate disclosure and inequitable conduct), and whether the patent should have

Finally, *ex parte* proceedings have been criticized for their lack of a concrete legal effect. Due to the differing evidentiary standards, it is entirely possible to obtain different results in reexamination and litigation. For example, a patent that is upheld in litigation might thereafter be struck down in *ex parte* reexamination, because only the litigation proceeding would invoke the statutory presumption of validity. This scenario has not caused problems thus far, partially due to the modest use of reexamination, and partially due to the fact that cognitive dissonance makes PTO officers hesitant to invalidate patents they have previously approved.⁶² Meanwhile, judges are more skeptical of patent validity and thus more likely to invalidate patents, despite the presumption of validity.⁶³

Moreover, in *ex parte* reexamination the decision is binding only if the patent is modified or invalidated—if it is upheld, there is no enforceable rule against re-challenging the same patent.⁶⁴ In contrast, litigation offers the clear and long-standing doctrines of *res judicata* and issue preclusion. Troublingly, the two proceedings can now go on at the same time. Before 1988, PTO reexaminations were stayed if a trial commenced for the patent, but in *Ethicon, Inc. v. Quigg*⁶⁵ the Federal Circuit held that Congress “did not give [the PTO director] authority to stay reexaminations; it told him to conduct them with special dispatch. Its silence about stays cannot be used to countermand that instruction.”⁶⁶ As a result of the confu-

been approved (utility, inventorship, public use). See *infra* notes 96–101 and accompanying text.

62. Of course, cognitive dissonance provides a strong argument for why reexamination may *never* produce a reliable result. However, for the purposes of this paper, we can assume that the PTO will find a way of minimizing cognitive dissonance procedurally (by making sure that officers never reexamine their own patents, or that their decisions are subject to oversight), so that the psychological bias will not be a major hindrance to reexamination.

63. In practice, this judicial skepticism of the PTO’s initial findings might make the outcomes of cases similar in any given situation, especially considering the PTO’s distaste for reversing itself and declaring a patent invalid that it had previously granted. However, there remains a genuine threat of discrepant outcomes in the proceedings that should not be written off due to cognitive biases on the part of the decision-makers.

64. Bauz, *supra* note 48, at 954 (“[E]ven though a patent has been reexamined and a certificate of reexamination has issued, the courts are free to subsequently invalidate the patent on the basis of the same prior art that was analyzed during the reexamination.”); see also 35 U.S.C. § 307(b) (announcing that a “substantive change” to a patent in reexamination may relieve a party from liability for infringement occurring before the reexamination).

65. 849 F.2d 1422 (Fed. Cir. 1988).

66. *Id.* at 1427.

sion inherent in allowing concurrent processes, the reexamination procedure is murky and its impact is difficult to predict, making it an inadequate alternative to litigation.

B. *Inter Partes* Reexamination

It quickly became apparent that the *ex parte* reexamination procedure alone was not going to further Congress's goal of enacting an effective reexamination procedure. Under the *ex parte* system, as of 2004, reexamination requests had challenged less than one percent of U.S. patents.⁶⁷ Indeed, one scholar called the original process "a kind of mongrel procedure, partly . . . between requester and patentee, partly *ex parte* between patentee and the PTO."⁶⁸ Thus, Congress sought to introduce a new system that would make the reexamination procedures more appealing to patent challengers. In 1999, Congress enacted a new procedure, known as *inter partes* reexamination, to coexist with the 1980 Reexamination Act's *ex parte* option.⁶⁹ The most significant change that the *inter partes* procedure imported is greater participation by the requestor. Instead of simply submitting the prior art, the challenger has an opportunity to file written comments addressing the issues raised by the action.⁷⁰ Also, the original statute for *inter partes* reexamination was amended in 2002, allowing the patent-holder to appeal the decision to the Federal Circuit.⁷¹

However, weighed against these improvements, the *inter partes* system also contained some drawbacks. First and foremost, invoking the procedure triggers complete estoppel—"any issue raised by a challenger during reexamination cannot be revisited in a later trial involving that challenger."⁷² As one commentator notes, *inter partes* reexamination "creates huge risks for challengers, who must trust that the USPTO will not make any mistakes in handling the reexamination. There is no opportunity to litigate the issue again in court. The broad consensus among patent experts is that these risks are too great."⁷³ Although estoppel solves the issue of *ex parte*

67. Farrell & Merges, *supra* note 47, at 966 (noting also that "[t]he original reexamination system has been at best a modest success" and that, in Europe, 8% of all patents are challenged through reexamination).

68. Janis, *supra* note 49, at 6.

69. Act of Nov. 29, 1999, Pub. L. No. 106-113, 113 Stat. 1501 (codified in sequence beginning at 35 U.S.C. § 311).

70. 35 U.S.C. § 314.

71. 21st Century Department of Justice Appropriations Authorization Act, Pub. L. No. 107-273, § 13105, 116 Stat. 1900 (2002).

72. Farrell & Merges, *supra* note 47, at 967 (citing 35 U.S.C. § 317).

73. *Id.*

reexaminations running concurrent to litigation, it also substantially increases the risks borne by challengers in requesting the procedure. As one commentator stated, “introducing legal and factual estoppel in a situation where the third party requestor has somewhat limited participation”⁷⁴ accentuates the flaws of the older procedure.

Moreover, unlike *ex parte* reexamination, *inter partes* reexamination requires the patent challenger to identify itself. The identification requirement is problematic because it may indicate to patent-holders potential infringers.⁷⁵ Particularly, this can be detrimental for smaller companies afraid of retaliation from their larger competitors.⁷⁶ Since these smaller competitors are actually the parties that reexamination *ought* to benefit (patent challengers who are unable to commit the cost and time necessary for litigation), the identification requirement is an important flaw in the design of *inter partes* reexamination.

Inter partes reexamination also shares some of the flaws of the *ex parte* process. Critics have noted that both reexamination procedures provide significant biases against *both* parties—the lesser burden of proof in reexamination biases the procedures against the patent-holder, while the severe limits on participation (even in *inter partes* reexamination) are a strong bias against the challenger.⁷⁷ As such, “both parties have significant reasons to favor litigation.”⁷⁸ As long as this remains true, challengers and patent-holders will both be hesitant to take advantage of the reexamination procedures for settling disputes.⁷⁹

C. Reexamination Reform: Two Differing Approaches

In order for Congress to create a successful reexamination procedure, it must achieve certain goals. Reexamination must provide

74. Osenga, *supra* note 55, at 237.

75. *Id.* (“By filing a reexamination request under the name of a lawyer, a small company can raise issues of patent validity without fear of being run into court on infringement allegations . . .”).

76. *Id.*

77. *Id.* at 236 (referencing 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. 63, 101–02 (1998)).

78. Osenga, *supra* note 55, at 236.

79. Patent-holders may request reexamination in order to strengthen the validity of their patent for future litigation, requesting that the PTO uphold the patent in light of newly discovered prior art. A significant percentage of reexamination requests since the 1980 Act have actually been from patent holders. *See supra* note 56 and accompanying text.

a viable mechanism for challenging patents that may have been granted improperly, thus decreasing the licensing fees and chilling effects caused by a multitude of bad patents impeding innovation. In order to do so, such a reexamination process must provide a mechanism to present evidence to an impartial judge who can determine whether or not a claim has merit. Such a process must also be run efficiently and effectively within the PTO's resources—a necessity which cannot be taken lightly, given current criticism of the PTO's determinations of patent validity at the application stage.

However, if reexamination is too similar to litigation itself, it risks losing the advantage of decreased time and cost for the parties involved. After all, in creating a reexamination procedure, Congress implicitly recognized that some alternative to litigation is needed to achieve the elusive balance between the needs of patent challengers for a method to argue their claims and the needs of patent-holders to be free from harassing challenges.

There is no proof that the current system cannot strike this balance. However, there is little doubt that reexamination procedures have been under-utilized thus far. In structuring reexamination reform, it is necessary to distinguish between two different ways to amend the current system. First, reform could focus on changing the structure of the reexamination process, for example by allowing greater participation by the parties in the form of oral arguments, cross examination, and expert testimony. Such changes would give challengers more influence over the outcome; this increased involvement will facilitate trust in reexamination, and thus greater use. This type of reform assumes that current challengers are hesitant to invoke reexamination mainly because of their sense that the PTO will be unable to accurately evaluate their claims without their participation. Thus, structural changes will primarily increase the perceived accuracy of the reexamination evaluations, and only secondarily will stimulate their increased use. As I will discuss in Part III, the FTC and NAS have recently proposed drastic structural overhauls of reexamination in order to create a new process much more similar to litigation. However, structural changes affecting the reexamination process are a blunt tool, ill-designed to address what might be more minor flaws in the current reexamination models. Although an increase in the perceived accuracy of reexamination will likely stimulate more challenges, the impact of such changes is extremely difficult to predict, risking multitudes of frivolous claims and perhaps quashing use of reexamination altogether.

However, the recent growth of public interest groups' use of reexamination, as discussed in Part IV, potentially indicates that the flaws in the current models are not due to their inherent structure, since recent reexaminations have successfully analyzed and evaluated the public interest groups' claims. Reexamination reform might therefore focus instead on eliminating the procedural handicaps that prevent challengers from initiating requests. This Note argues that reform should use these smaller, more specific changes, targeted to incentivize reexamination challenges without altering the structure of the current procedures.

III. RECENT PROPOSALS FOR REFORM OF THE REEXAMINATION PROCEDURES

In 2003 and 2004, the National Academy of Sciences and the Federal Trade Commission, respectively, commissioned studies to evaluate the patent system as it stands in the United States. Each group produced a proposal for how to alter the patent system in order to make it more efficient, better for competition, and more facilitative of the goals of patent law. Both proposals recommend dramatic structural changes to the reexamination models that eliminate the current options and institute something much more similar to litigation. This section will discuss the proposals of both Commissions, and explain why a structural overhaul of patent reexamination is a risky endeavor, with an unpredictable impact and the potential for tremendous harm to both patent-holders and challengers.

A. *The FTC Proposal*

The FTC Commission made clear that the PTO “needs procedures and presumptions that work effectively as screens, first, to protect against improvidently granted patents or patents of improper breadth, and next, to weed out any patents that are granted improvidently or with improper breadth despite the first screen.”⁸⁰ It identified as key areas for concern the lack of challenger involvement, the limited opportunities for evidence production and presentation, the lack of opposition procedures before a patent is upheld, and the overall structure of the reexamination proceedings.⁸¹ The Commission noted that “much follows from determining whether the intention [of reexamination] is to provide a

80. *FTC Report*, *supra* note 8, ch. 5, at 1.

81. *Id.* at 15–17.

mechanism for limited error correction or to afford a serious alternative to litigation.”⁸² Given the expanded structure of the model that the Commission proposed, it is safe to assume that it concluded that the purpose of reexamination is to achieve the latter goal.⁸³ The decision to focus on the use of reexamination as an alternative to litigation led the Commission to recommend something very similar to actual litigation.

The Commission divided the plans it considered into three categories: enhanced *inter partes* reexamination, pre-grant opposition, and post-grant opposition/review.⁸⁴ For enhanced *inter partes* reexamination, the Commission considered whether or not to loosen the estoppel provisions by invoking estoppel only if the third party appeals the decision to the Federal Circuit, and otherwise allowing issues challenged in reexamination to be re-challenged in litigation.⁸⁵ Essentially, enhanced *inter partes* reexamination would have involved reforming the current processes in order to stimulate more use. This solution was ultimately rejected, in favor of suggesting more drastic changes to the reexamination structure.⁸⁶

The Commission also considered introducing a pre-grant opposition system, which would allow parties to challenge patents before the PTO grants them, thus introducing interested third parties into the application process.⁸⁷ This option was the most drastic change that the FTC considered—also, the one it was least likely to adopt. Currently, under the U.S. system, patent applications are not disclosed until granted. Pre-grant opposition procedures have existed in some intellectual property regimes—Germany and the United Kingdom, for instance.⁸⁸ Japan originally built a pre-grant

82. *Id.* at 15–16.

83. Alternatively, Section V proposes that both of these goals can potentially be accomplished under the two current reexamination procedures with minor changes, particularly given the recent surge in use of the procedures, fundamentally driven by public interest group challenges.

84. *FTC Report, supra* note 8, ch.5, at 17–18.

85. *Id.* at 17.

86. *Id.* at 23–24.

87. *Id.* at 18. Japan and South Korea had pre-grant opposition procedures at one point. However, due to increasing international pressure, both have recently moved to a post-grant system. See Kesan, *supra* note 46, at 778. This shift should suggest even greater doubt that the U.S. would ever adopt such a system, particularly given the importance within its system of not disclosing the patent application before it is approved.

88. For the English law, see the Copyright, Designs and Patents Act, 1988, CH. 48 (U.K.). When Germany’s patent law was harmonized with European Patent Law, however, the pre-grant opposition procedure was changed to a post-grant

opposition system into its patent law framework,⁸⁹ but in 1994, Secretary of Commerce Ronald Brown and Ambassador of Japan Takakazu Kuriyama signed an executive agreement to harmonize the U.S. and Japanese patent law systems, in which Japan agreed to replace its pre-grant opposition with a post-grant process.⁹⁰ After the U.S. exerted such international influence to diminish the use of pre-grant opposition, it seemed to the FTC unlikely that Congress would thereafter institute a system of pre-grant patent challenges. Furthermore, the pre-grant opposition system has not been particularly successful in the regimes that have embraced it—Japan’s pre-grant system produced “delays in the issuance of patents and resulted in undue harassment of the applicant.”⁹¹ Abandoning pre-grant review did not just synchronize the U.S. and Japanese patent systems, but at the same time improved Japan’s patent system substantially. Similarly, when China replaced its pre-grant system with post-grant review, it also “shortened the time required to grant a patent by six to ten months, depending on the type of patent application.”⁹² Thus, a shift to pre-grant patent challenges in the U.S. is not only doubtful to occur, but also unlikely to yield advantageous results.

Ultimately, the Commission recommended a new model for post-grant review that overhauls the current reexamination methods and makes them much more similar to litigation. The Commission suggested that parties should be able to “present oral testimony, cross-examine experts, and engage in limited discov-

one. See generally Albrecht Krieger, *The New German Patent Law After Its Harmonization With European Patent Law—A General Survey*, 13 IIC 1 (1982).

89. See Japanese Patent Act, Law No. 121 of 1959 (amended 1998), <http://www.jpo-miti.go.jp/>.

90. Letter of Agreement between U.S. Secretary of Commerce Ronald Brown and Japanese Ambassador Takakazu Kuriyama (Aug. 16, 1994), reprinted in 48 BNA’S PAT. TRADEMARK & COPYRIGHT J. 413 (1994) (“Under the agreement, the JPO will end its current practice of allowing pre-issuance third-party opposition and institute an accelerated examination procedure.”). This agreement was enacted as part of a shift in U.S. policy on patent law, putting a greater focus on international harmonization. See Janis, *supra* note 49, at 33–34. In return for Japan’s patent law changes, the U.S. agreed, among other things, to reform its patent reexamination procedures in order to provide third parties with more participation in the process and the ability to submit written comments. *Id.* at 35. This resulted, eventually, in the U.S. adoption of *inter partes* reexamination.

91. Haitao Sun, Note, *Post-Grant Patent Invalidation in China and in the United States, Europe, and Japan: A Comparative Study*, 15 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 273, 296 (2004).

92. *Id.* at 286 (citing East IP, *The Latest Amendments to the Chinese Patent Law—A Comparative Study of the Patent Law with the TRIPS Agreement*, http://www.eastip.com/news_publications/latestamendment (last visited Nov. 4, 2005)).

ery.”⁹³ Further, the new structure would include hearings before independent judges instead of PTO examiners.⁹⁴ The Commission also recommended broadening the claims considered under reexamination to include subject matter relevant to validity other than prior art, noting that the patent reexamination systems in Europe and Japan allow such claims.⁹⁵ Currently, in litigation a challenger may base claims on patentability,⁹⁶ enablement/written description,⁹⁷ claim indefiniteness,⁹⁸ best mode,⁹⁹ double patenting,¹⁰⁰ and incorrect inventorship,¹⁰¹ and presumably the Commission would like to open reexamination to all of these types of claims. Further, to protect patent-holders, the Commission suggested implementing measures to avoid harassment and delay, including threshold showings for instituting a review, time limits on the process, and the ability to impose sanctions for wrongful conduct.¹⁰² Finally, it recommended that settlement agreements between the parties during review be filed with the PTO and made available on

93. *FTC Report*, *supra* note 8, ch. 5, at 17.

94. *Id.* at 22.

95. *Id.* at 18.

96. *See* 35 U.S.C. § 101; *see also* 1 CHISUM, *supra* note 10, at § G1-16 (There are “four categories of subject matter eligible for patent protection. Three are structural (products): machines, manufactures, compositions of matter; one is operational (process).”).

97. 35 U.S.C. § 112; *see also* 1 CHISUM, *supra* note 10, at § G1-7 (“[A] patent application must describe the invention in such terms as to enable one with ordinary skill in the art to make and use it without an undue amount of experimentation. The scope of the enablement must be commensurate with the scope of protection sought by the claims.”).

98. 35 U.S.C. § 112.

99. *Id.*; *see also* 1 CHISUM, *supra* note 10, at § G-2 (“[A] patent application must set forth the best mode contemplated by the inventor of carrying out his invention. The requirement is violated where the inventor knew of a specific superior method of carrying out the invention at the time of filing the application and yet concealed it.”).

100. *See* 1 CHISUM, *supra* note 10, at § G1-6.1 (defining “double patenting” as claiming “the same invention or obvious modifications of the same invention in more than one patent”).

101. *See* 1 CHISUM, *supra* note 10, at § G1-11 (“An application for a patent must properly identify the single inventorship entity (a sole inventor or two or more joint inventors) that is responsible for the subject matter of all of the claims.”).

102. *FTC Report*, *supra* note 8, at 23–24. The Committee also considered instituting standing requirements, but ultimately decided that such requirements would “impede early resolution of uncertainty . . . and may not fit well with the goals of post-grant review.” *Id.* at 23.

request to other government agencies,¹⁰³ and that the conclusions in post-grant review carry the force of law.¹⁰⁴

The Commission stated that its proposed post-grant review would “offer[] sufficient value without duplicating litigation,”¹⁰⁵ and asserted that the new model had the potential to “improve patent quality by drawing upon the information and expertise of competitors.”¹⁰⁶ Furthermore, it stated that providing such an “administrative alternative[] to full-blown litigation”¹⁰⁷ would encourage challenges to poor-quality patents. In contrast, it stated, *inter partes* reexamination did not provide a viable alternative to litigation, largely because patent challengers simply did not use it.¹⁰⁸

B. *The NAS Proposal*¹⁰⁹

The NAS Commission recommended that the PTO institute a “Postgrant Open Review Procedure,”¹¹⁰ outlining a model similar to what the FTC proposed. Its proposal began by depicting why reexamination was necessary. It cited the numerous consequences resulting from the grant of improper or overly broad patents: encouraging firms to use legal resources as a “competitive weapon without consumer benefit;”¹¹¹ more infringement and litigation, raising transaction costs; raising costs of licensing; and deterrence of investment capital due to uncertainty about the validity of issued patents.¹¹² It then pointed out the flaws inherent in using litigation

103. *Id.* at 24. The purpose of this recommendation seems largely to facilitate the suggestion that the FTC conduct its own initiations of patent reexaminations. Making settlement acknowledgements available to government agencies could greatly facilitate the choice of when to initiate a reexamination (moreover, the disclosure would also discourage the settlement of claims, since the patent-holder will know that it could still face a government-requested reexamination).

104. *Id.* (referring to *United States v. Mead Corp.*, 533 U.S. 218 (2001) (examining the ways in which Congress may delegate its law-making powers to an agency)). The Report acknowledges the controversy over whether reexamination determinations are currently entitled to *Chevron* deference, but suggests “confer[ring] such deference regarding conclusions of law reached in post-grant review proceedings.” *Id.* n.173.

105. *Id.* at 20.

106. *Id.* at 19.

107. *Id.* at 20.

108. *Id.* (“No post-grant procedure will be successful unless it is used.”).

109. NAT’L ACAD. SCIS., *A PATENT SYSTEM FOR THE 21ST CENTURY* (Stephen A. Merrill et al. eds., 2004) [hereinafter *NAS Proposal*], <http://books.nap.edu/catalog/10976.html>.

110. *Id.* at 95.

111. *Id.*

112. *Id.*

alone to address patent validity issues.¹¹³ Among them, litigation does not occur, on average, until 7 to 10 years after the patent is issued, and the court's decision is then delayed for another 2 to 3 years.¹¹⁴ The NAS Commission found that these concerns made instituting a viable reexamination procedure crucial.

The Commission severely criticized the current reexamination methods, focusing on the fact that “[a]lmost one-half of *ex-parte* reexaminations are sought by patent holders hoping to strengthen their patents, usually in the face of newly revealed prior art,”¹¹⁵ and that “there were fewer than 25 requests [for *inter partes* reexamination] in 2003. Challengers are loathe to forfeit an opportunity to litigate all of the potential validity issues if accused of infringement.”¹¹⁶ As a solution to these shortcomings, the NAS Commission suggested instituting an open review structure to provide “more timely, lower cost, and more efficient review of granted patents and a wider range of remedies than the courts are able to provide.”¹¹⁷ Many of the recommendations were similar to the FTC proposal. Both proposals would eliminate the current methods and adopt something much closer to what a challenger would receive in litigation.

The NAS Commission specified several changes for each party's participation in reexamination. Unlike the current methods, both parties would be able to present testimony of experts, cross-examine witnesses, and conduct limited discovery.¹¹⁸ Moreover, the challenger would have access to the history of the patent's prosecution.¹¹⁹ Although the requesting party would pay a fee to initiate the process, in order to protect the patent-holder, the chal-

113. *Id.* (“Nor can the courts be expected to review patents' validity in a timely, efficient manner.”).

114. *Id.* at 95–96.

115. *Id.* at 96.

116. *Id.*

117. *Id.* at 96–97.

118. *Id.* at 97.

119. *Id.* A patent's prosecution history is the record of proceedings in the PTO that resulted in the patent's issuance. The doctrine of prosecution history estoppel precludes a patent owner in an infringement suit from constructing a claim to resurrect subject matter surrendered during the course of the application proceeding—subject matter that was abandoned or rejected in order for the patent to be granted. 5A CHISUM, *supra* note 10, at § 18.05. “The estoppel may operate in reverse, precluding a patent owner from urging a narrow construction of a claim in order to avoid invalidity if such a construction would be identical to a claim rejected and abandoned.” *Id.* Thus, in the context of the FTC report, access to the entire prosecution history would assumedly include subject matter abandoned during the application process.

lenged party would be responsible only for its attorney's fees.¹²⁰ The proposal also recommended that an administrative patent judge or a panel of PTO officers conduct the review.¹²¹ The challenger could claim invalidity on any ground, and would be allowed to request reconsideration of prior art and subject matter previously considered by the PTO.¹²² Finally, either party could appeal the decision, first to a patent appeal board and then to the Court of Appeals for the Federal Circuit.¹²³ The Commission also determined that the Federal District Courts should be "able and encouraged to refer issues of patent validity raised in a lawsuit to an Open Review proceeding . . ." ¹²⁴ Further, the Department of Justice and Federal Trade Commission should be able to initiate reviews if they suspect that a patent is invalid or being used to impede competition.¹²⁵

The Commission also noted that, like the FTC, it had considered several other changes that did not go into the final recommendations. Most notably, it considered allowing challenges only for a limited time after the patent is issued.¹²⁶ This is the current practice of the European Patent Office, where challengers must act within nine months of the grant.¹²⁷ However, in Europe, anyone has standing to sue for patent infringement, while in the United States, litigation can only be commenced by a competitor who is a

120. *NAS Proposal*, *supra* note 109, at 97.

121. *Id.*

122. *Id.* at 101.

123. *Id.* In another section, the proposal also states that the procedure be subject to time limits, and that the "objective should be to conclude cases within one year of the request." *Id.* at 103.

124. *Id.* at 97.

125. *Id.* However, it is important to note that these particular changes do not hinge on instituting an open process. They fall under the second category of reexamination reform defined in Part II, as changes that will increase use of the process independent of structural or procedural reform. As such, the courts, the FTC, and the Department of Justice should still implement these suggestions under the current reexamination procedures. Although most of the changes that both Commissions recommend are procedural changes, increased government use of reexamination is an exception, and should be adopted regardless of changes to the procedure itself.

126. *Id.* at 101. However, according to the model the *NAS Proposal* considered, an action by the patent-holder, such as suing the challenger for infringement, could trigger a patent challenge, even after the window closed. Further, a patent surviving the open-review challenge window would be granted a presumption of validity. *Id.*

127. *Id.*

known or potential infringer.¹²⁸ Thus, in the U.S., after the close of the review window, there would be no further outlet for challenging patents by anyone but competitors. A time window for challenges would severely limit the ability to challenge patents, which is contrary to the purpose of reexamination itself. Thus, it was exceedingly doubtful that such a change would be adopted.

The Commission also addressed concerns associated with the enactment of an open review process. Most importantly, in order to be effective, the process would “require additional resources—money, infrastructure, people, and space”¹²⁹ These extra resources would enhance what the NAS Commission called the “side benefits”¹³⁰ of the open review process. The proposal asserted that open review will “encourage firms to review newly issued patents, increasing technology spillovers,”¹³¹ and thus “provide guidance to patent examiners much earlier in the technology cycle than they currently acquire it from court decisions.”¹³²

C. *Potential Flaws in the Proposals’ Suggested Reforms*

As discussed in Part II, giving the parties more control over reexamination through greater participation will increase the accuracy of the PTO’s determinations. Consequently, such changes will stimulate more use of reexamination. But there are significant risks associated with instituting either the NAS’s or the FTC’s suggested post-grant review systems. The impact of such drastic structural changes is thus difficult to predict; the potential costs may be greater than the potential benefits. Making reexamination similar to litigation could shift a tremendous number of claims to PTO reexamination, lead to the harassment of patent-holders, overwhelm the PTO with claims, and pave the way for inequitable use of the process. Alternately, it is also possible that a structure similar to litigation would not increase use of reexamination at all; if the lack of interest in reexamination is due to low incentives to pursue challenges—and not to a concern with accuracy—then increasing the

128. See 8 CHISUM, *supra* note 10, at § 21.03 (“The fundamental starting point is that the interested parties should be, on the one hand, the owner of the patent, and on the other hand, the accused infringer.”).

129. *NAS Proposal*, *supra* note 109, at 103.

130. *Id.*

131. *Id.* Similarly, the FTC proposal asserts that a system of post-grant review would help alleviate the concerns regarding the public goods phenomenon in patent law, i.e., the fact that since the costs of a challenge are borne by the party challenging, but the benefits flow to all of society, competitors have a low incentive to challenge validity. See *FTC Proposal*, *supra* note 8, ch. 5, at 20.

132. *NAS Proposal*, *supra* note 109, at 103.

structural intricacy risks not only eliminating the recent increase in the use of reexamination challenges, but also quashing the use of reexamination altogether. Thus, drastic reform could come at a high price, and this section highlights the potential consequences of adopting the FTC's or the NAS Commissions' proposed changes.

1. Overstimulation of Reexamination

Both history and common sense warn us against making patent reexamination too similar to litigation. Overstimulating the use of reexamination could lead to the harassment of patent-holders forced to defend against multiple reexamination challenges, competitors funding third party reexamination challenges to unfairly avoid estoppel, and inefficient implementation of the new methods due to lack of PTO resources.¹³³

a. Concerns of Patent-Holder Harassment

Those who shaped the development of reexamination worried about balancing two competing interests.¹³⁴ The goal was to make reexamination sufficiently appealing as an alternative to litigation that competitors would forego resorting to the courts, but that interest was balanced by knowledge of the potential harm that an overly lax reexamination procedure could cause for patent-holders. Subjecting patent holders to a constant onslaught of cheap, easy-to-pursue patent reexaminations from their competitors would force an unfair burden on them. It could also cause fewer patents in the long run, as inventors turn to other avenues of protection, such as trade secret law, instead of risky patenting.¹³⁵ If reexamining patents is made too easy, and there are no negative consequences to requesting a reexamination that fails, the risk of patent-holders being harassed by multiple challenges will be high, even for strong patents. Further, it is possible that investors will shy away from pat-

133. *FTC Report, supra* note 8, ch. 5, at 18. Some contributors to the FTC hearings were concerned that the procedures would be abused, and that there was "possibility for expense and delay," while others were skeptical that reexamination could ever "meaningfully substitute for litigation," and doubted that competitors would ever risk the hazards of retaliation in order to engage in reexamination, no matter how attractive the process. *Id.*

134. Farrell & Merges, *supra* note 47, at 965.

135. Of course, nothing in reexamination necessitates the patent-holder who successfully defends against a claim to bear the costs of the defense. It would be possible to assuage some of this burden by instituting a system of shifting costs to decrease the financial drain on patent-holders. However, neither the FTC nor NAS proposals suggest such a system, so this paper assumes that a new reexamination procedure would still require the parties to bear their own costs.

ents that have had multiple reexamination requests, regardless of the patent's actual strength.

It may be helpful to compare the number of litigated claims that are also based on prior art, in order to get a sense of the magnitude of potential claims that reexamination could attract. In an empirical study of patent litigation, John Allison and Mark Lemley chronicled the outcome of every federal circuit patent case between 1989 and 1996, and in their population, there were 91 cases based on prior art that were litigated to judgment over nearly 8 years,¹³⁶ a seemingly small figure. However, that population did not include patents that settled during litigation, which changes the scope of the figure dramatically and counsels caution for reexamination reform. Up to ninety-five percent of all lawsuits settle,¹³⁷ and so thousands of lawsuits were probably commenced in order to have 91 cases litigated to judgment. Moreover, the vast majority of patent competitors charged with infringement choose to purchase a license instead of even commencing litigation, which also drastically increases the total number of potential claims. The challengers who initiate a lawsuit and then settle, or those who pay licensing fees for lack of any feasible alternative, are likely to be attracted to reexamination, particularly if it is easy to pursue and the consequences of an unsuccessful challenge are minimal. This is a tremendous number of potential claims that could form the basis for reexamination, and it underscores the danger of inundating patent-holders with challenges.

b. Concerns of Inequitable Conduct

Another problem for reexamination stems from the possibility that a patent-holder's competitors might fund interest groups who challenge patents in order to avoid reexamination's estoppel provisions. In this scenario, if the reexamination fails, the original challenger is estopped from litigating the issue, but the competitor remains free to sue. The risk of this inequitable behavior increases along with the use of reexamination, and if patent-holders inundated by reexamination requests are also sued in court, it will become more difficult for them to recognize the connections between similar claims.

Thus, achieving a moderate and steady growth in reexamination use is crucial. The procedure must be invoked when necessary

136. *Litigated Patents*, *supra* note 25, at 209 & Table 2.

137. See Robert M. Smith, *Saving Ourselves from Being Lawyered to Death*, WASH. POST, Sept. 24, 1995, at C4.

and practical, but should not be overused to the point of condoning abuse. Making smaller, targeted procedural changes to the current reexamination models is likely to fulfill these goals. If the amount of reexamination grows gradually, courts will have time to observe and react to unjust behavior, as the threat of inequitable conduct is ultimately one best resolved by the adversarial nature of litigation; courts are used to exposing inequitable behavior. The lawyers of patent-holders are not oblivious; if a competitor seeks to introduce at trial prior art that was previously entered into a reexamination, the patent-holder's lawyers can use discovery to attempt to show that the competitor funded the earlier challenge and should be estopped from re-raising the issue. At the very least, the patent-holder could point out that the same issue was already decided by the PTO.

Of course, this argument does not mean to assert that sponsoring public interest groups would always be inequitable. Often, public interest groups rely on funding from smaller companies within the industry, who invest in the operations of the organization with the hope that such funding will improve the overall quality of the patent system. Such autonomous public interest groups should still be able to accept grants from businesses within their industry, as long as those grants are not attempts to influence current patent claims. We shall see that the rise of new reexamination-focused public interest groups demonstrates how the current system has already struck an excellent balance between encouraging the funding of autonomous groups and deterring investment in interest groups for inequitable use. Thus, there is no need to alter the structure of reexamination itself to further stimulate development of these legitimate public interest groups, but a drastic reform could increase the likelihood of inequitable behavior, concurrently straining the court system.

c. Concerns of Overwhelming the PTO's Resources

The NAS Commission's call for additional resources mirrors the FTC's concerns about the PTO's capabilities, since an inefficient and overextended agency will have extreme difficulty implementing the new procedure successfully. Both the NAS and FTC propose much more involvement by the parties and oversight of their efforts by the PTO, but the positive effects of such drastic structural reform depend on effective and prompt implementation. If challengers invoke reexamination procedures too often, they will soon overwhelm the PTO's capacity, resulting in a long backlog and cursory examinations that mimic the problems of the initial applica-

tion process. Given the organization's limited resources and its reputation for inefficiency and oversight, it is safe to say that overwhelming the PTO is an important threat.

For an already-overwhelmed PTO, it is unlikely that the organization could respond effectively to these new responsibilities. In 1977, before Congress created *ex parte* and *inter partes* reexamination, the director created a process to reexamine challenged patents within his own powers at the PTO, allowing a great deal of participation from the parties and placing more permissive limits on the subject matter of claims.¹³⁸ The procedure soon turned the PTO into a "small-scale courthouse,"¹³⁹ which the organization was not equipped to handle. *Ex parte* reexamination was developed only three years later, and its severe limits on challenger involvement were likely shaped by the memory of the PTO's disastrous attempt at providing a similar process to litigation. The PTO was then, and is now, unable to handle the demands of such a drastic change. In order to avoid overwhelming the PTO's resources, changes to reexamination must be kept to a minimum, and should be made gradually to target specific procedural flaws.

The drastic reforms that the FTC and NAS Commissions propose could therefore result in negative consequences for patent-holders and the PTO. Dramatically expanding the structure of reexamination would create a strong risk of patent-holder harassment and the challenge of many likely-valid patents. It is unlikely that patent-holders who are forced to defend against multiple reexamination challenges would be able to carefully scrutinize the identities of their accusers, which would facilitate inequitable use of reexamination by competitors who secretly fund other groups' challenges. Thus, drastic changes to reexamination would risk putting patent-holders at a significant disadvantage while their legal rights are muddied by invalid challenges and fraudulent practices. Finally, it is unlikely that the PTO would be able to accommodate the demands of increased use of reexamination, and thus the new structure would suffer from inefficiency and delay, limiting its potential effectiveness.

2. Quashing the Use of Reexamination Altogether

It is also possible that the increased demands associated with open review (with the ability to present expert witnesses, conduct discovery, and cross-examine witnesses) will eliminate altogether

138. Osenga, *supra* note 55, at 222.

139. *Id.* at 223.

any use of reexamination. The drastic FTC and NAS proposals rest on the assertion that the current reexamination methods are rarely invoked. Yet, neither proposal discusses the fact that *inter partes* requests increased substantially in 2003, jumping to 21 from 4 in the previous year, with continued growth in 2004.¹⁴⁰ This new growth stems in part from the emerging efforts of public interest groups in using reexamination to challenge patents, as discussed further in Part IV. Although the total number of reexaminations is still small in comparison to the number of patents challenged in litigation, or the number of patents granted in total, the recent increase is important, since it may signify an increase in acceptance of the *current* reexamination models as a viable way to challenge patents.

However, implementing open-review appreciably changes the scope of the resources required to pursue a reexamination review. Public interest groups, who rely on pro bono lawyers and law students' help in forming their legal claims to request *ex parte* and *inter partes* reexaminations, may simply be unable to muster the resources necessary to succeed under the new review model.¹⁴¹ Moreover, the larger and more complicated the structure, the more that large companies holding patents can muster their legal resources and defeat claims made by smaller companies and public interest groups. In litigation, the party with the most money can often dominate the trial or force its opponent into settlement.¹⁴² Open review might actually reverse the early success of public interest group challenges, or it might scare smaller competitors away from reexamination for the same reasons that they are afraid to litigate.¹⁴³

Furthermore, it is important to remember that while these new, proposed review methods have been used successfully in some European systems, there is no way to be certain that patent chal-

140. United States Patent and Trademark Office, Report to Congress on Inter Partes Reexamination, http://www.uspto.gov/web/offices/dcom/olia/reports/reexam_report.htm/.

141. Further, one of the proposals discussed instituting a standing requirement for open review, but did not come to a conclusion on whether it should be recommended. *FTC Report*, *supra* note 8, ch. 5, at 23. A standing requirement would completely shut public interest organizations out of the ability to request reviews, which would limit the efficacy of the review process.

142. Donald R. Songer et al., *Do the "Haves" Come Out Ahead over Time? Applying Galanter's Framework to Decisions of the U.S. Courts of Appeals, 1925-1988*, 33 *LAW & SOC'Y REV.* 811, 827 (1999).

143. The FTC report addresses this concern, but decides that a cheaper process would have sufficient allure for smaller competitors, rather than the risks of litigation. *FTC Proposal*, *supra* note 8, ch. 5, at 20. While this argument has some merit, the effects of the proposed changes are certainly more ambiguous than the FTC is willing to concede.

lengers will utilize them in the United States. Each time that Congress has changed reexamination, there has been high hope that the process would catch on as an alternative to litigation, and thus far, there has been little success. Although the FTC and NAS proposals suggest drastic structural changes that seem likely to have a major impact on the use of the review process, it may simply be that patent-holders and challengers are unwilling to forego the privileges and protections that the American judicial system provides, especially when the distinctions between the two procedures are lessened. Thus, instituting the suggested reform measures risks driving the use of reexamination down to nothing, impeding the current growth without producing any new interest.

Nor will the FTC and NAS proposals that federal courts be able to refer issues of validity to the PTO for reexamination necessarily increase the use of reexamination in practice. The courts are already notoriously distrustful of the PTO's capabilities,¹⁴⁴ and there is no reason to think that judges will jump at the chance to refer questions of validity to PTO review. If courts are hesitant to refer issues to open review, they simply will not elect to do so. At the same time, if the new structural changes place public interest groups and smaller competitors at a severe disadvantage, then even their use of reexamination will fall to zero, and no one will use the new, elaborate model.

Thus, adopting the structural reforms that the FTC and NAS proposals recommend could have serious consequences for patent holders, patent challengers, and the general public. Fortunately, an overhaul of the current models may not be necessary—as Part IV will discuss, public interest groups have recently begun to challenge patents using reexamination, and their early success may further stimulate use of the current process without the need for sweeping reform. Additionally, Part V will recommend alternative changes to reexamination that could increase incentives to invoke the procedure, promoting increased use of the current process without turning reexamination into a reproduction of litigation.

144. Roy H. Wepner & Richard W. Ellis, *The Federal Circuit's Presumptively Erroneous Presumption of Irreparable Harm*, 6 TUL. J. TECH. & INTELL. PROP. 147, 151 (2004) (noting that in past cases, the Federal Circuit has set severe standards for establishing patent validity because the court maintained “both a distrust of and unfamiliarity with patent issues, along with a belief that the *ex parte* examination by the PTO is inherently unreliable”).

IV.
PUBLIC INTEREST GROUP REEXAMINATION
CHALLENGES

Both the FTC and the NAS Committees failed to consider public interest group use of the current reexamination methods, which may significantly undermine the necessity for drastic reexamination reform. Over the course of the past year, several public interest groups, formed to expand competition by eliminating overbroad patents, have filed reexamination requests with the PTO and are having success both in getting their requests accepted, and, most recently, in having patents declared invalid. This is a promising trend, which has contributed to the statistical increase in the use of reexamination in 2003 and 2004, and which potentially undermines the need for drastic structural reform.

The different circumstances of public interest groups' and potential competitors' challenges are important to articulate at the outset of discussion. Due to standing requirements, groups working in the public interest are unable to challenge patents in litigation. A public interest organization therefore loses nothing by submitting to the strict estoppel rules of *inter partes* reexamination.¹⁴⁵ Meanwhile, competitors who do have standing largely choose not to file suit due to the time and cost of litigation. Reexamination therefore corrects a flaw in the patent system: the groups that are willing and able to challenge patents are incapable of litigating, and the groups who are able to litigate often refuse to do so.

It is worth pausing here to address whether it is truly a problem that competitors often choose not to pursue litigation or reexamination. One might argue that if competitors choose licensing because it is cheaper than challenging patents through reexamination or litigation, then the bad patents that stifle competition are not presenting a major hurdle to innovation and it is unnecessary to provide incentives for greater use of patent challenges. Yet this analysis ignores the public goods problem inherent in patent litigation—although the challenging party bears the cost and risk involved in challenging a competitor's patent, the gains are shared by

145. The standard for finding standing to sue requires a party to either be defending an infringement action on the patent, or to reasonably fear that an infringement suit is forthcoming. See *BP Chemicals Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 978 (Fed. Cir. 1993) (stating that standing to challenge a patent in court requires "(1) an explicit threat or other action by the patentee, which creates a reasonable apprehension on the part of the declaratory plaintiff that it will face an infringement suit, and (2) present activity which could constitute infringement or concrete steps taken with the intent to conduct such activity").

all other competitors in the industry—and by the general public—who reap the reward of increased innovation after the patent is struck down. On an individual basis, the cost of licensing may be more cost-efficient than challenging a patent through litigation or reexamination. However, on an industry-wide scale, licensing creates huge unnecessary costs for those infringing on improperly granted patents. Thus, the entire industry stands to benefit from stopping the exploitation of bad patents, but individual competitors are unlikely to file challenges. As a result, public interest groups are ideal candidates for reexamination—they target patents that are the worst inhibitors of innovation, and those with strong evidence weighing against their validity.¹⁴⁶

The use of reexamination by public interest groups is growing steadily, and there is reason to believe that the growth will continue. Although there were only 26 requests for *inter partes* reexaminations from 2000 to 2003, 21 occurred in 2003, a huge jump from only 4 in 2002, and only 1 in the years before 2002.¹⁴⁷ Further, this growth continued in 2004, when 27 requests were filed, indicating that the previous year's growth was only the beginning.¹⁴⁸ Many of these requests were the result of public interest groups' new interest in reexamination—instead of competitors requesting reexamination or patent-holders using the process to strengthen their patents, these groups began stepping in to challenge vulnerable anticompetitive patents.

Further, these groups have had early success in their patent challenges. The leader thus far has been the Public Patent Foundation (PUBPAT), a nonprofit organization founded to represent “the public's interests against wrongly issued patents and unsound patent policy.”¹⁴⁹ The group received seed funding in late 2003¹⁵⁰ and has already successfully requested several reexaminations and succeeded in having one patent held invalid and another voluntarily abandoned by its owner. PUBPAT's legal services are provided

146. Moreover, the fact that competitors have not yet embraced reexamination may stem simply from the fact that it is so rarely used. If this is the case, competitors may be drawn to the procedures once they realize that public interest groups are invoking reexamination with success, which could further stimulate use of the current processes.

147. United States Patent and Trademark Office, Report to Congress on Inter Partes Reexamination, *supra* note 140.

148. *Id.*

149. Public Patent Foundation, <http://www.pubpat.org>.

150. Press Release, Pub. Patent Found., Public Patent Foundation Receives Seed Funding, Begins Operations (November 4, 2003), <http://www.pubpat.org/Launch%20Release.htm>.

by a small board of directors and staff, volunteer law students and professors,¹⁵¹ and practicing lawyers doing pro bono work.¹⁵²

The group has requested reexaminations for three patents and is in the process of seeking out and researching other potential candidates. Because of Microsoft's "past anticompetitive behavior combined with their recent launch of a comprehensive patent assertion campaign,"¹⁵³ the first reexamination PUBPAT requested was Microsoft's FAT technology patent. Months before the reexamination request, Microsoft had begun demanding royalty payments from groups using the FAT file system, and a PUBPAT press release speculated that "Microsoft intend[ed] to use its patents to fight the competitive threat posed by Free Software."¹⁵⁴ PUBPAT used *ex parte* reexamination to submit prior art that attempted to show that the FAT technology was obvious, and thus that the patent should not have been granted. In June, 2004, the PTO accepted PUBPAT's request for reexamination, announcing that there was "a substantial new question of patentability"¹⁵⁵ for every claim of the patent. PUBPAT proclaimed the reexamination a likely victory, noting that "[t]hird party requests for reexamination, like the one filed by PUBPAT, are successful in having the [challenged] patent either narrowed or completely revoked roughly 70% of the time."¹⁵⁶ As predicted, the Microsoft FAT patent was ruled invalid on September 30, 2004. PUBPAT director Dan Ravicher declared, "[t]he Patent Office has simply confirmed what we already knew for some time now, Microsoft's FAT patent is bogus."¹⁵⁷

The nullification of the Microsoft patent was an encouraging development for several reasons. First, it undermines the claim that the current reexamination model is unfairly biased toward the patent-holder, since Microsoft could not muster its financial re-

151. *Id.* ("Prominent law professors from Columbia, Georgetown and Stanford law schools have already pledged support for the organization.")

152. Public Patent Foundation, Pro Bono and Internship Opportunities for Attorneys and Law Students, http://www.pubpat.org/Legal_Support.htm (last visited Nov. 4, 2005).

153. Press Release, Pub. Patent Found., PUBPAT Challenges Microsoft Patent to Protect Competition in Software Markets (April 15, 2004), http://www.pubpat.org/Microsoft_517_Reexam_Filed.htm.

154. *Id.*

155. Press Release, Pub. Patent Found., Microsoft Patent to be Reexamined At PUBPAT's Request (June 10, 2004), http://www.pubpat.org/Microsoft_517_Reexam_Granted.htm.

156. *Id.*

157. Press Release, Pub. Patent Found., At PUBPAT's Request, Patent Office Rejects Microsoft's FAT Patent (Sept. 30, 2004), http://www.pubpat.org/Microsoft_517_Rejected.htm.

sources to dominate the reexamination outcome, as it may have been able to do in litigation. The decision suggests that reexamination does, in some cases, provide a viable alternative to litigation, even if it has previously been rarely invoked. The FAT patent was ideally suited for reexamination: The challenging party lacked standing and resources to sue in litigation, but was still able to take advantage of the cheaper cost and speedier outcome that reexamination provides. Indeed, the entire reexamination, from the initial request to the PTO's resolution, was concluded within six months.

Although the Microsoft patent is the most developed of PUBPAT's reexamination requests thus far, another interesting example is the group's reexamination challenge of Columbia University's patent on cotransformation, the "process for inserting foreign DNA into a host cell to produce certain proteins,"¹⁵⁸ which "is the basis for a wide range of pharmaceutical products."¹⁵⁹ The PTO granted the reexamination request in May of 2004,¹⁶⁰ but did not produce a ruling on the patent. Instead, as a result of the PTO's reexamination, as well as numerous lawsuits across the country,¹⁶¹ Columbia agreed in December 2004 to voluntarily abandon its patent. Although Columbia did not "expressly conced[e] that the patent was invalid,"¹⁶² it "waived any right to assert the patent or any similar patent at any time."¹⁶³ Ravicher stated that "[g]etting Columbia University to abandon assertion of the patent is a total victory for PUBPAT and for the public that has been harmed by the unjust issuance of this patent."¹⁶⁴

Finally, spurred by "numerous infringement lawsuits . . . against websites offering generic or lower priced versions"¹⁶⁵ of pharmaceuticals, and by the tremendous cost of acquiring medica-

158. Press Release, Pub. Patent Found., PUBPAT Asks Patent Office to Revoke Cotransformation Patent to Save Public Hundreds of Millions of Dollars (Feb. 26, 2004), http://www.pubpat.org/Axel_Reexam_Filed.htm.

159. Press Release, Pub. Patent Found., Patent Office Grants PUBPAT Request to Reexamine Cotransformation Patent (May 10, 2004), http://www.pubpat.org/Axel_Reexam_Granted.htm.

160. *Id.*

161. *See, e.g.*, *Trs. of Columbia Univ. v. Roche Diagnostics GmbH*, 272 F. Supp. 2d 90 (D. Mass. 2003).

162. Press Release, Pub. Patent Found., PUBPAT Scores Another Victory: Columbia University Abandons Assertion of Challenged Cotransformation Patent (Dec. 1, 2004), http://www.pubpat.org/Axel_Patent_Abandoned.htm.

163. *Id.*

164. *Id.*

165. Press Release, Pub. Patent Found., PUBPAT Challenges Lipitor® Patent to Protect Public Health (Sept. 14, 2004), http://www.pubpat.org/Lipitor_156_Reexam_Filed.htm.

tion,¹⁶⁶ the most recent patent challenge that PUBPAT has filed is a reexamination request against Pfizer's patent on the cholesterol-blocking drug Lipitor. The PTO accepted the reexamination request on December 7, 2004, announcing that the submitted material raised a substantial new question of patentability on all 44 claims of the patent.¹⁶⁷ Thus, over its short history, PUBPAT's challenges have ranged through multiple industries, have targeted high-profile patents with tremendous benefits to the public if nullified, and have acquired substantial and consistent results. The group's early success speaks positively for public interest groups' continued work in this area, and also for the viability of the current reexamination models.

PUBPAT's use of reexamination has also spurred other public interest groups to begin to use the process as part of their patent law strategies. Encouraged by PUBPAT's early success, other organizations are entering the beginning stages of evidence-gathering for future reexamination requests. A well-known public interest group involved in electronic patents, the Electronic Frontier Foundation (EFF), has announced its intention to join the patent-challenging movement, and has agreed to be a "strategic partner" of PUBPAT.¹⁶⁸ The group's plan, thus far, consists of two components: documenting the damage that bad patents have created, and challenging those patents with the PTO.¹⁶⁹ Presently, the group is still in the preparation stage, which consists of "(1) Identifying the worst offending patents; (2) Documenting the prior art that shows their invalidity; and (3) Chronicling the negative impact they have had"¹⁷⁰ In order to do so, EFF plans numerous approaches, including requesting research contributions from the public, col-

166. *Id.* (documenting that "[a] one-month supply of Lipitor in New York costs from \$105 to \$132" and the drug produced sales of \$2.4 billion in the second quarter of 2004 alone).

167. Press Release, Pub. Patent Found., Lipitor Patent to be Reexamined at PUBPAT's Request (Dec. 7, 2004), http://www.pubpat.org/Lipitor_156_Reexam_Granted.htm.

168. PUBPAT Partners and Providers, http://www.pubpat.org/Partners_and_Providers.htm (last visited Nov. 4, 2005). PUBPAT has also formed a strategic partnership with Creative Commons, *id.*, a frontrunner nonprofit that has created a new licensing system in copyright, providing less restrictive ownership for intellectual property. Creative Commons, <http://creativecommons.org/> (last visited Nov. 4, 2005).

169. Electronic Frontier Foundation, <http://www.eff.org/patent> (last visited Nov. 4, 2005).

170. *Id.*

laboration with other similarly-minded interest groups, and collaboration with law school clinics throughout the country.¹⁷¹

Moreover, increased government agency use of reexamination will augment public interest groups' use of the procedures. As part of its proposal, the FTC asserted that it plans to become more involved in reexaminations, identifying key patents that are impeding competition and initiating challenges against them. The NAS Commission also suggested increased government use of reexamination, recommending that the Department of Justice also initiate requests. This aspect of either proposal does not hinge on reexamination reform, and thus foreshadows increased government agency use of the current reexamination methods as well, supplementing the work that public interest groups are starting. Thus, it seems that the new spark in interest for reexamination will only continue to grow; the early success of public interest group challenges will lead to more groups using the process, the government will begin to invoke the procedures, and this new trend is likely to spread to smaller competitors as well. This is optimistic news for the current reexamination methods, and it suggests that they may be considered more influential in the future than they have been thus far.

Last, it is crucial to note that the restrictions on challenger involvement in the current reexamination models may actually be a benefit for public interest groups, enabling them to stretch their limited legal and financial resources to challenge greater numbers of patents. Given the costs already associated with finding prior art with which to challenge a patent, the added cost of greater involvement in the reexamination process could overwhelm public interest groups' resources, limiting or precluding altogether a group's ability to initiate reexaminations. Making reexamination more similar to litigation, as the FTC and NAS Commissions propose, risks encouraging large patent-holders, like Microsoft and Pfizer, to pit their legal and financial resources against groups like PUBPAT and EFF. More open review means that greater resources will be necessary in order to participate—and greater risk that superior resources will be able to influence the outcome. Thus, the following section will suggest a better approach to reexamination reform, given the need to protect the public interest groups that have begun to invoke the procedure, and the concurrent need to make sure that the recent increase in reexamination use continues to grow.

171. *Id.*

V.
SUGGESTIONS FOR MODERATE REFORM OF THE
CURRENT REEXAMINATION METHODS

Reforms should institute more focused procedural changes that entice new groups to make use of reexamination by increasing third parties' incentives to invoke the process. Such procedural reforms will stimulate additional reexamination use and avoid the risks and drawbacks of an open review structure. Specifically, allowing anonymous challenges, expanding the types of claims that may form the basis for reexamination requests, and allowing third parties to appeal the outcome of reexaminations will eliminate key impediments to bringing reexamination challenges under the current system. These changes will also produce a significant increase in use of the current procedures while avoiding drastic reform of the entire reexamination structure.

A. *Anonymity in Inter Partes Reexamination*

First, the issue of anonymity is tremendously important for smaller competitors seeking to challenge patents, and the fact that there is no way to file an *inter partes* reexamination request anonymously is a large part of why such competitors have not embraced reexamination thus far. Allowing a challenger to file the request under the name of a lawyer decreases the potential for retaliation from the larger patent-holder, and allows reexamination to be used to its full extent. Currently, the law allows anonymous challenges in *ex parte* reexaminations, but not in *inter partes*, and this should be changed to facilitate smaller companies' ability to use the *inter partes* procedure in the future.

The right to anonymity is, of course, controversial. Courts have called party anonymity "unusual"¹⁷² and "disfavored."¹⁷³ However, commentators have noted that the number of anonymous party lawsuits has "skyrocketed"¹⁷⁴ over the past decades, increasing from only seven decisions throughout the federal district court system in 1963 to nearly 200 thirty years later.¹⁷⁵ Although Federal Rule of Civil Procedure 10(a) states that "[i]n the complaint the

172. *Femedeer v. Haun*, 227 F.3d 1244, 1246 (10th Cir. 2000) (citation omitted).

173. *See Doe v. Blue Cross & Blue Shield United of Wis.*, 112 F.3d 869, 872 (7th Cir. 1997).

174. Babak A. Rastgoufard, Note, *Pay Attention to That Green Curtain: Anonymity and the Courts*, 53 CASE W. RES. L. REV. 1009, 1024 (2003).

175. *Id.*

title of the action shall include the names of all the parties,”¹⁷⁶ courts permit exceptions to this rule when necessary. Anonymous challenges often succeed “when the matters in suit are particularly private, stigmatizing, or so unpopular that plaintiffs fear retaliation.”¹⁷⁷ This right has been endorsed for proceedings ranging from divorce¹⁷⁸ to “social activists seeking judicial intervention in public interest matters.”¹⁷⁹ The sensitive nature of patent reexaminations and the threat of retaliation against smaller competitors suggest that patent reexaminations should fall into these categories of exceptions to the rule against anonymous proceedings.

Anonymity is already allowed in *ex parte* reexaminations, but it is easy to see why it would be more controversial to extend it to *inter partes* reexaminations. In *ex parte* reexaminations, the challenger can only show the PTO prior art references, but cannot comment on them. In contrast, *inter partes* reexamination allows the challenger to file written arguments about the prior art, making the issue of anonymity more problematic. However, it is important to remember the strong limitations on the reexamination procedures as they stand. Unlike in litigation, there is no contact between the parties, and all inquiries are initiated by the PTO. There is no discovery, examination of witnesses, or any other process which the patent-holder could reasonably argue forces it to divulge confidential information to an anonymous, challenging party. Instead, it simply must follow the requests of the PTO, which are determined after considering and evaluating the challenger’s written comments. For the patent-holder, the process is not particularly different from the initial application procedure, in which the PTO similarly attempts to evaluate the patent in light of the available prior art. Thus, anonymity in reexamination raises far fewer issues of fairness than anonymity in litigation—which, moreover, is growing in popularity and acceptance.

B. *Expanding the Types of Claims Reexamination May Consider*

The second potential change that could be made to the current reexamination procedures is to expand the types of claims that may form the basis for reexaminations. In litigation, patents may

176. FED. R. CIV. P. 10(a).

177. Joan Steinman, *Public Trial, Pseudonymous Parties: When Should Litigants Be Permitted to Keep Their Identities Confidential?*, 37 HASTINGS L.J. 1, 1–2 (1986).

178. See Gale Humphrey Carpenter, *Protecting the Privacy of Divorcing Parties: The Move Toward Pseudonymous Filing*, 17 J. OF AM. ACAD. OF MATRIMONIAL LAW 105 (2001).

179. Steinman, *supra* note 177, at 2.

be challenged on numerous grounds, including subject matter patentability, inadequacies in the patent's written description, assertions of claim indefiniteness, best mode, double patenting, and incorrect inventorship.¹⁸⁰ A patent may be contested under combinations of these claims, and many patents are invalidated on the basis of more than one. In reexamination, however, only claims based on prior art may be raised, and estoppel attaches to the issue once the PTO has decided it.¹⁸¹ Thus, if patent challengers have more than one claim with which to challenge validity, they must either raise the claims in separate reexamination and litigation proceedings, or else choose to pursue the complete challenge in litigation. Choosing separate proceedings would be a waste of time and money, and would potentially weaken both claims. Consequently, challengers are likely to choose litigation. However, allowing all types of claims to be raised in reexamination would eliminate this dilemma for patent challengers and further stimulate use of the current reexamination processes.¹⁸²

Expanding the types of claims which reexamination considers does risk overwhelming the PTO with new demands. However, this risk is drastically diminished by retaining the current reexamination processes instead of instituting drastic structural changes. Opening up reexamination to all types of claims targets increased use of reexamination specifically, whereas expanding the parties' involvement in the process would entail a major strain on the PTO's resources, increasing the time and effort spent sorting through the challenger and patent-holder's arguments. Since, under the current system, challengers with more than one claim are essentially forced to choose litigation, expanding the allowable types of reexamination claims simply eliminates a handicap placed on challengers who invoke reexamination, without providing a reproduction of what a court would grant in a full trial. Thus, opening up reexamination to all types of claims will provide direct incentives to invoke the process, without risking inundating the PTO with new responsibilities.

Moreover, expanding the types of claims considered under reexamination comports with the original purpose of the procedures;

180. PATENT LITIGATION, *supra* note 18.

181. *See* 4 CHISUM, *supra* note 10, at § 11.07[4][a][iv].

182. Both the FTC and NAS proposals suggest expanding the subject matter of reexamination as part of instituting an open review process. *See supra* Part III. However, alternatively, broadening the subject matter of reexamination under the current procedures will have a significant impact on their use, without also having to restructure the entire reexamination process.

when Congress developed the original reexamination method, it limited the process to apply to only prior art because such claims formed the basis for the vast majority of patent litigation.¹⁸³ Currently, patent litigation is based on many claims other than prior art,¹⁸⁴ and so it is logical that reexamination should provide an outlet for challenging patents under these claims as well. Thus, expanding the types of claims on which reexamination challenges may be based eliminates an obstacle in the path of patent challengers under the current procedures, and will further stimulate use of reexamination without overhauling the whole structure.

C. Expanding the Right to Appeal the PTO's Reexamination Decisions

Finally, another way of directly stimulating increased use of the process is granting to the patent challenger the right to appeal reexamination outcomes. Currently, only the patent-holder may appeal the decision to the Federal Circuit. Since competitors have standing to sue in court, allowing them to appeal the PTO's ruling would provide a significant motivation to pursue reexamination, since they would no longer be sacrificing their ability to challenge the outcome. For public interest groups, however, allowing the challenger to appeal the PTO's decision raises a more difficult issue. Since they lack standing to sue in court, they could appeal the reexamination judgment only if Congress created an exception to the standing requirements. In some contexts, Congress has done so: once a party submits itself to certain types of administrative judgments, for instance, it may be able to invoke standing to appeal.¹⁸⁵ In other situations, however, being a party to an administrative hearing does not entitle the challenger to then appeal in court.¹⁸⁶ Ultimately, this issue must be considered and decided by Congress.

183. Bauz, *supra* note 48, at 947 (citing Koenig, *supra* note 28, at 5.05).

184. See *Litigated Patents*, *supra* note 25, at 214 & Table 4. *Litigated Patents* documents the breadth of other claims on which patents were challenged in litigation from 1989 to 1996, whereas Congress had considered data from the late 1970s in forming the 1980 Reexamination Act.

185. See Patricia Kelmar, Note: *Binational Panels of the Canada-United States Free Trade Agreement in Action: The Constitutional Challenge Continues*, 27 GEO. WASH. J. INT'L L. & ECON. 173, 177 & n.30 (1993) (describing the "Appeals Process in the United States Prior to the Free Trade Agreement," in which, under 19 U.S.C. § 1516a(d), adverse decisions by the U.S. Chamber of Commerce could be appealed by any "interested party" to the Federal Circuit and ultimately the Supreme Court).

186. See *Fort Bend v. Tex. Parks & Wildlife Comm'n.*, 818 S.W.2d 898, 899 (Tex. Ct. App. 1991) ("[S]tanding to participate in [an] agency hearing does not necessarily confer standing to appeal the agency's decision in district court.").

Yet, whether or not to grant standing to appeal for public interest groups could be a moot point: such groups are less likely to invoke an appeal than competitors, since they may be better off concentrating their limited resources on a different patent challenge, rather than pursuing costly and time-consuming litigation.

Of course, Congress should only implement these changes when it is convinced that the PTO is equipped to handle their new demands, that they will not unduly disadvantage patent-holders, and that they are necessary to stimulate further use of the processes. Ultimately, it is possible to continue the recent growth in the use of patent reexamination by instituting small procedural changes, designed specifically to encourage new groups to invoke reexamination, instead of drastic structural reform. Interest in reexamination is already growing, and the changes that the FTC and NAS propose are not, in fact, necessary to make the process viable, useful and beneficial, or to entice new parties to pursue it.

CONCLUSION

The reform that is needed for the reexamination process is not as drastic as critics suggest. The use of reexamination by public interest groups signifies the beginning of a new interest in the current methods, which could be altered with small procedural changes in order to stimulate even more use. Furthermore, a complete structural overhaul of the reexamination system might unearth more problems than it solves, as has been the history of PTO procedures.

The implications of recent use of reexamination procedures by public interest groups are encouraging. For a process that seemed unappealing to *any* group two years ago, the surge in use of reexamination is a surprising and interesting development, which has the potential to shift the way that the current procedures are viewed by other prospective patent challengers. The solution to reexamination reform may be closer to the current practices than the FTC and NAS proposals suggest. Instead of a radical structural reformation of the current models, Congress should use smaller procedural changes that directly simulate increased use of the current processes in order to achieve the optimal balance between offering an appealing method through which to challenge patents without litigation, while still protecting the rights of patent-holders and the interest of the public in competition and innovation.

