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THE USE AND ABUSE OF PATENT REEXAMINATION: SHAM PETITIONING BEFORE THE USPTO

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This article investigates the susceptibility of the patent reexamination process to abuse and argues that “sham petitioning” in the reexamination context threatens to undermine the quid pro quo of the patent system, jeopardizing the objectives of innovation and disclosure by weakening the incentive of the patent right. Since reexamination casts a cloud on the validity of a patent and harms enforceability, the patent holder subject to such a proceeding instigated under false pretenses can be deprived of the economic benefits his patent should otherwise have afforded him. In an effort to help craft a solution, the article explores the ways in which reexamination is vulnerable to abuse and looks closely at several instances of alleged misconduct. It contends that state tort remedies provide patent holders subject to unwarranted proceedings an adequate recourse for harms suffered. It also comments on a recent case in which the Federal Circuit was asked to consider whether such remedies are preempted, arguing that the court's surprising decision to affirm without opinion perpetuates uncertainty throughout the patent system and evades important questions of first impression. Finally, a number of proposals are offered with a view to curbing abuse in current and future variants of the reexamination process.

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I. INTRODUCTION

Patents are government-granted property rights² bestowing upon inventors limited terms³ of exclusivity⁴ over their inventions in order to reward⁵ them for revealing their discoveries to the public and hence opting to forego the advantages of trade secret protection.⁶ The patent right, as distinguished from the traditional monopoly,⁷ is granted

² See generally 35 U.S.C. §§ 154, 261 (2010) (“[P]atents shall have the attributes of personal property.”); see also *Patlex Corp. v. Mossinghoff* (“*Patlex I*”), 758 F.2d 594, 599-600 (Fed. Cir. 1985) (“[P]atent property rights, necessarily including the right ‘to license and exploit patents’, fall squarely within both classical and judicial definitions of protectable property . . . [and] the right to exclude . . . is implemented by the licensing and exploitation of patents.”), *aff’d in part and rev’d in part on reh’g* (“*Patlex II*”), 771 F.2d 480 (Fed. Cir. 1985); *Consolidated Fruit-Jar Co. v. Wright*, 94 U.S. 92, 96 (1877) (“Inventors are a meritorious class. They are public benefactors. They add to the wealth and comfort of the community and promote the progress of civilization. A patent for an invention is as much property as a patent for land. The right rests on the same foundation, and is surrounded and protected by the same sanctions.”).

³ See 35 U.S.C. § 154 (setting the patent term as 20 years from the date on which the application for the patent was filed).

⁴ See U.S. Const. art. I, § 8, cl. 8; see also *Carl Schenk, A.G. v. Nortron Corp.*, 713 F.2d 782, 786 n.3 (Fed. Cir. 1983) (“The patent right is but the right to exclude others, the very definition of ‘property.’”); *Transparent-Wrap Machine Corp. v. Stokes & Smith Co.*, 329 U.S. 637, 643 (1947) (stating that the patent right “carries for the statutory period ‘a right to be free from competition in the practice of the invention’ . . . [and] [t]hat exclusive right, being the essence of the patent privilege, is . . . of the same dignity as any other property which may be used to purchase patents”).

⁵ See *Universal Oil Prods. Co. v. Globe Oil & Ref. Co.*, 322 U.S. 471, 484 (1944) (“As a reward for inventions and to encourage their disclosure, the United States offers a . . . monopoly to an inventor who refrains from keeping his invention a trade secret.”).

⁶ See *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186-87 (1933) (“An inventor . . . may keep his invention secret and reap its fruits indefinitely. In consideration of its disclosure and the consequent benefit to the community, the patent is granted. An exclusive enjoyment is guaranteed him . . . but upon expiration of that period, the knowledge of the invention enures to the people, who are thus enabled without restriction to practice it and profit by its use.”).

⁷ See *In re Comiskey*, No. 2006-1286, 2009 U.S. App. LEXIS 400, at *51 (Fed. Cir. Jan. 13, 2009) (Newman, J., dissenting from denial of reh’g en banc) (“The United States Supreme Court has long recognized the distinction between the odious monopolies that were the target of the English Statute of Monopolies, and patents for invention, which serve the public interest.”).

in exchange for the disclosure⁸ of new technical knowledge to the public.⁹ Accordingly, the law requires that an invention for which a patent is sought be, inter alia, both novel and nonobvious.¹⁰ If a patent applicant were to mislead the U.S. Patent & Trademark Office (“PTO”) into issuing him a patent—for example, by withholding or misrepresenting evidence which would have shown that his purported “invention” was in fact not new but had been known to others—it is clear that, by deceiving the PTO into awarding him exclusive rights over a product or process while having himself contributed nothing to the advancement of technology, he would have perpetrated a very great harm on the public, and enriched himself thereby.¹¹ To do so would be to lay “the heavy hand of tribute” on what is already in the public domain.¹²

In view of such considerations, it has long been appreciated that the “public interest demands that all facts relevant to” any “possible fraud or inequitableness underlying” a pending patent application be “submitted formally or informally to the Patent Office.”¹³ Inventors and their attorneys are required to exercise “the highest degree of candor and good faith”¹⁴ in their conduct before the PTO, for “only in this way” can the public be protected in the first instance from “fraudulent patent

⁸ See generally *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480-81 (1974) (explaining the value of disclosure).

⁹ See *Dubilier*, 289 U.S. at 186 (“Though often so characterized, a patent is not, accurately speaking, a monopoly, for it is not created by the executive authority at the expense and to the prejudice of all the community except the grantee of the patent. The term monopoly connotes the giving of an exclusive privilege for buying, selling, working or using a thing which the public freely enjoyed prior to the grant. Thus a monopoly takes something from the people. An inventor deprives the public of nothing which it enjoyed before his discovery, but gives something of value to the community by adding to the sum of human knowledge.”).

¹⁰ See 35 U.S.C. §§ 102, 103 (2010). Of course, other criteria for patentability must be met, among them the threshold requirement that the invention or discovery be eligible for patent protection under 35 U.S.C. § 101. See generally *Bilski v. Kappos*, 130 S.Ct. 3218 (2010).

¹¹ See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 148 (1989) (“[S]ections 102(a) and (b) operate in tandem to exclude from consideration for patent protection knowledge that is already available to the public . . . [and] express a congressional determination that the creation of a monopoly in such information would not only serve no socially useful purpose, but would in fact injure the public by removing existing knowledge.”).

¹² See *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230 (1964); see also *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979) (“[T]he stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public.”).

¹³ *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 818 (1945).

¹⁴ *Kingsland v. Dorsey*, 338 U.S. 318, 319 (1949).

monopolies”¹⁵ and their repercussions. When a court finds a patent to have been obtained through inequitable conduct¹⁶ before the PTO, the patent in question is rendered unenforceable,¹⁷ relieving not only the accused infringer but the public, too, from the burdens imposed by the wrongful monopoly.

Suppose, however, that we render the preceding scenario in reverse: imagine that a company, wishing to damage a rival’s business or simply to use a patented technology without paying royalties, were to fabricate or grossly misrepresent evidence purporting to show that its rival’s patented invention is neither novel, nor nonobvious. The company petitions the PTO to reconsider its patentability, and the PTO, deceived by the company’s misrepresentations, agrees to review the propriety of the patent grant. In consequence, the owner’s property interests in the patent are suddenly thrown into question by the mere fact of the PTO’s reconsideration of its validity, though initiated on the basis of a “sham petition.”¹⁸

¹⁵ *Precision Instrument*, 324 U.S. at 818.

¹⁶ The doctrine of “inequitable conduct” provides a defense to those accused of patent infringement whereby they may escape liability through a showing that the patent was wrongfully obtained via misconduct before the PTO; under 28 U.S.C. § 2201, an allegation of inequitable conduct can also form the basis of a declaratory judgment claim for unenforceability of a patent. Frequently invoked and less frequently proven, inequitable conduct has been subject to the oft-repeated criticism that overpleading has created unwanted “side effects” that outweigh the doctrine’s aim of deterring misconduct before the PTO. While it should be noted that “inequitable conduct is a broader, more inclusive concept than . . . common law fraud,” *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1069 (Fed. Cir. 1998), the present author is neither convinced that a radical limitation of the doctrine would be free of its own undesirable consequences (e.g., an increase in misconduct), nor persuaded that its underlying objectives are outweighed by any side effects it creates. For representative discussions, see Robert J. Goldman, *Evolution of the Inequitable Conduct Defense in Patent Litigation*, 7 Harv. J. L. & Tech. 37 (1993-1994) and Melissa Feeny Wasserman, *Limiting the Inequitable Conduct Defense*, 13 Va. J.L. & Tech. 7 (2008). It must be noted that, at the time of writing, the Federal Circuit was considering whether to modify the standard for inequitable conduct in an important pending case, *Therasense, Inc. v. Becton, Dickinson & Co.*, Nos. 2008-1511, -1512, -1513, -1514, -1595, 2010 U.S. App. LEXIS 9549 (Fed. Cir. Apr. 26, 2010) (order granting reh’g en banc).

¹⁷ See *J.P. Stevens & Co. v. Lex Tex, Ltd.*, 747 F.2d 1553, 1559-62 (Fed. Cir. 1984).

¹⁸ “Sham petitioning” refers to the misuse of administrative proceedings for anti-competitive purposes, e.g., in order to delay market entry from emerging competitors. See generally Lars Noah, *Sham Petitioning as a Threat to the Integrity of the Regulatory Process*, 74 N.C. L. Rev. 1 (1995-1996). As used here, the term “sham” originates in an exception to the *Noerr-Pennington* doctrine, which provides broad immunity (most often in the antitrust context) to those availing themselves of their right to petition the government, unless their petitioning activity can be shown to be a “mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor.” *Eastern R.R. Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 144 (1961). Thus, those who petition agencies such as the PTO enjoy *Noerr-Pennington* immunity, “at least unless it is shown that the entire federal

Unfortunately, as I will show, this scenario is far from speculative. The law permits competitors, indeed anyone, to request that the PTO commence a form of administrative review, known as a patent reexamination proceeding,¹⁹ in order to reexamine the validity of an issued patent. These proceedings, like the patent application process, carry with them the potential for inequitable conduct,²⁰ though here the misconduct is perpetrated not against the public with the aim of obtaining a wrongful monopoly, but against the *inventor* with the aim of depriving him of his patent.²¹ As with patent application procedures, which require applicants to submit evidence in support of patentability, the reexamination process requires parties to submit evidence in support of any request that the PTO reexamine a patent. Yet when the evidence is spurious and the petition for reexamination a sham, the inventor must bear the burden of having to prove it false if he is to be successful in defending his patent—to say nothing of the possibility that the fraudulent or misleading character of such evidence might never be discovered.²² Meanwhile he must endure grave doubts in the marketplace regarding his very entitlement to the patent.²³ Thus, just as unscrupulous applicants can harm the public by obtaining a patent through fraud on the PTO, so an inventor's competitors can deprive him of the economic benefits his patent rights would otherwise have afforded him by subjecting his patent to baseless reexamination proceedings before the PTO, casting

agency action [instigated by the petitioner] was a 'sham.'" *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1356 (Fed. Cir. 1991).

¹⁹ See 35 U.S.C. §§ 301-307 (2010) for ex parte patent reexamination procedures and 35 U.S.C. §§ 311-318 (2010) for inter partes reexamination. Unless otherwise noted in the text, I refer to ex parte reexamination, which is by far the most common form of the proceeding.

²⁰ See Anthony H. Handal, *Re-Examination: Some Tactical Considerations—A Private Practitioner's Viewpoint*, 9 AIPLA Q.J. 249, 251 (1981) ("Like other forms of action under the patent law, the new reexamination procedure is susceptible to substantial misuses."); see also Interview by the Reexamination Center with IP lawyer Taraneh Maghamé (Oct. 12, 2009) (noting opportunities for requesters to abuse the reexamination system and explaining that "[s]uch abuse takes the form of serial reexaminations of the same patent . . . or the filing of non-meritorious requests for reexamination"), available at http://www.maghamel-legal.com/uploads/The_Reexamination_Center_Executive_Interview_-_Taraneh_Maghamel.pdf.

²¹ Of course the public may suffer indirectly, e.g., when startup companies find capital more difficult to secure in the absence of patent protection. See *infra* note 56 and accompanying text.

²² See *Total Containment, Inc. v. Environ Prods, Inc.*, 921 F. Supp. 1355, 1378 (E.D. Pa. 1995) ("[W]hen a reexamination requester other than the patent owner fails to exercise candor and good faith during a reexamination proceeding, the fact might never be discovered. If, by withholding material information, the requestor is successful in having the claims of its opponent's patent canceled, any pending litigation would be dismissed. The patent owner would not have an opportunity to discover the withheld information in subsequent litigation.>").

²³ See *Bruning v. Hirose*, 161 F.3d 681, 685 (Fed. Cir. 1998) (holding that reexamination carries a "stigma or uncertainty regarding entitlement to the patent").

doubt as to its validity where there should have been none. As this article will show, patent reexamination proceedings are as vulnerable as many other administrative procedures to the well-known practice of sham petitioning, with particularly damaging repercussions for patent holders.²⁴

After all, if the PTO can be deceived into granting a patent, it is no leap of faith to admit that the Office can be deceived into reexamining and even rejecting a valid one. Though some have argued that “if the PTO decides to grant the request, the request was ipso facto not objectively baseless,”²⁵ the law of malicious prosecution recognizes the fallacy of equating court and agency decisions as conclusive evidence of probable cause: *courts and agencies can be deceived*. If a requester were to induce the PTO to initiate a reexamination proceeding by submitting “materially false facts,”²⁶ the law of malicious prosecution would find “the presumption of probable cause [to be] effectually rebutted.”²⁷ Skepticism regarding this possibility rests largely on confidence in the current safeguard against requests brought for the purpose of harassment (the “substantial new question of patentability” standard) to function as it was intended. Yet, distressingly, this threshold standard was recently referred to by the former Chief Judge of the Federal Circuit as “almost no standard at all.”²⁸ As will be argued in this article, the standard has neither been rigorously interpreted, nor carefully applied, and failure to do so has left reexamination susceptible to abuse.²⁹ Consequently, the process is being

²⁴ See *infra* Section III.A.

²⁵ Brief of O’Melveny & Myers LLP as Amicus Curiae Supporting Defendants-Appellees at 16, *Lockwood v. Sheppard, Mullin, Richter & Hampton, LLP*, No. 2010-1189 (Fed. Cir., docketed Feb. 17, 2010).

²⁶ *Roberts v. Sentry Life Ins.*, 90 Cal. Rptr. 2d 408, 414 (Ct. App. 1999) (“[T]here may be situations where denial of summary judgment should not irrefutably establish probable cause. For example, if denial of summary judgment was induced by materially false facts submitted in opposition, equating denial with probable cause might be wrong. Summary judgment might have been granted but for the false evidence. (For that matter, a jury verdict also might be induced by materially false testimony, raising a good argument that no conclusive presumption of probable cause should arise.)”).

²⁷ *Plumley v. Mockett*, 79 Cal. Rptr. 3d 822, 839 (Ct. App. 2008) (presumption of probable cause rebutted when court’s decision is “procured by fraud, perjury or subornation of perjury, or other unfair conduct on the part of the defendant” (citing *Carpenter v. Sibley*, 153 Cal. 215, 218 (1908))).

²⁸ Former Chief Judge Paul R. Michel, Lecture at the Fordham University School of Law Intellectual Property Law Institute: Innovation, Incentives, Competition, and Patent Law Reform: Should Congress Fix the Patent Office and Leave Litigation Management to the Courts? (Nov. 18, 2009).

²⁹ See *infra* Section III.A for discussion; see also Christopher L. Logan, *Patent Reform 2005: HR 2795 and the Road to Post-Grant Oppositions*, 74 UMKC L. Rev. 975, 995 (2005-)

used in a manner at the outer limits of legality and Congressional intent, and in some cases instigated under false pretenses.

The inventor who finds himself subject to unwarranted reexamination proceedings faces an almost impossible situation: the validity of his property rights having been thrown into question, he is simultaneously deprived of his ability to profit from the patent and forced to expend significant time and resources to dispel the cloud cast over it.³⁰ Users of the patented technology have no motive to purchase a license for it when the patent is undergoing renewed scrutiny, and courts are far less willing to entertain litigation brought to enforce patent rights which have been called into question by the PTO.³¹ For companies employing technology still in its infancy, reexamination can be “the first step in halting development of that technology . . . neutralizing the economic ability of the new firm to develop the technology by so overburdening it with serious patent problems as to substantially weaken that firm and its ability to continue attracting investment.”³²

An unwarranted reexamination proceeding has an effect on patent rights analogous to that of an improper *lis pendens* filing on real estate: “it puts a cloud on title,”³³ vastly complicating the attempt to enforce the patent right of exclusion, and effectively precluding the sale or licensing of the patent—at least for anything more than a fraction of its true value—until the reexamination is resolved.³⁴ As the Supreme Court has held, “a patent which does not carry with it the limited monopoly referred to in the

2006) (arguing that the SNQ “provision with regards to reexamination has proven ineffective in the past”).

³⁰ See Amy L. Magas, Comment, *When Politics Interfere with Patent Reexamination*, 4 J. Marshall Rev. Intell. Prop. L. 160, 182 (2004) (observing that if a “patentee is forced into reexamination, the result is a costly process which can take several years to complete and can result in delays in licensing opportunities”).

³¹ See *infra* Section II.A.

³² See Handal, *supra* note 19, at 251.

³³ Jeffrey Huron, *Lis Pendulum: The Risks of Recording an Improper Lis Pendens Are Now Greater Than Ever, Obliging Counsel to Ensure They Have a Viable Claim*, 30 L.A. Lawyer 27 (2008) (“[T]he practical effect of filing a *lis pendens* is to make the affected property unmarketable as long as the *lis pendens* remains of record.” (quoting *Amalgamated Bank v. Super. Ct.*, 57 Cal. Rptr. 3d 686 (Ct. App. 2007))).

³⁴ Lawrence Pope has suggested to me that this cloud might be ameliorated somewhat through a creative use of “contingent licensing” arrangements, whereby a party might agree to purchase a license to a patent for a reduced fee in consideration of the uncertainty occasioned by the reexamination. This is an interesting suggestion, although it still seems undeniable that the backdrop of an ongoing reexamination has a deleterious effect on the patent’s value. In a scenario where a party agrees to buy a license on the condition that the patent survives reexamination unscathed, there is obviously the risk that such a “deferred licensee” might go out of business by the time the patent reemerges.

Constitution is in reality not a patent at all.”³⁵ This is particularly true during the pendency of a reexamination.³⁶ And as one member of the Senate Judiciary Committee recently explained, merely to mount a defense of one’s patent in a reexamination proceeding “routinely costs a patent owner hundreds of thousands of dollars in legal fees” and “many smaller companies, universities, and others, when faced with these costs will simply abandon their patent because they lack money to defend themselves. In many cases simply granting these proceedings is a death sentence for a patent.”³⁷

When innovators elect to disclose what they might more easily have kept secret,³⁸ and when they have endured the lengthy and expensive process³⁹ of obtaining patents for the inventions they have labored to perfect—they, no less than the public, must be protected from the consequences of fraud on the PTO. They must be able to expect that their property rights will not be nullified⁴⁰ or otherwise diluted through fraud⁴¹

³⁵ See *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 202 (1933).

³⁶ See *infra* Section II.A for further elaboration and Section II.B for consideration of possible objections.

³⁷ Senator Jon Kyl, Remarks at Executive Business Meeting of the Senate Judiciary Committee (Mar. 31, 2009), available at <http://judiciary.senate.gov/webcast/judiciary03312009-1000.ram>; see also Logan, *supra* note 28, at 994 (“[T]he patentee is at a distinct disadvantage where the only alternatives are to pay the costs associated with an opposition proceeding or forgo his rights under the patent. The repugnance of such a quandary needs no explanation.”); Handal, *supra* note 19, at 252 (“[I]t is possible that a number of patents might be lost solely due to the inability of the patent holder to financially deal with the problem.”).

³⁸ Cf. *Joy Techs., Inc. v. Manbeck*, 959 F.2d 226, 228 (Fed. Cir. 1992) (noting plaintiff’s protest that, had it known that it would later be subjected to the vagaries of reexamination, “it could have refused the patent grant [in the first place], thereby maintaining the secrecy of its invention”). Although in *Joy* the plaintiff’s patent had issued prior to the passage of the reexamination statutes into law, the general point stands: if the patent grant can be nullified through abuse of the reexamination process, many inventors may begin to feel themselves better off by opting for trade secrecy.

³⁹ According to the most recent statistics, applicants can expect to wait an average of 25.8 months before the PTO issues a first office action, and an average of 34.6 months before their patents issue. See USPTO Performance and Accountability Report for Fiscal Year 2009, at 115 tbl.4, available at <http://www.uspto.gov/about/stratplan/ar/2009/2009annualreport.pdf>.

⁴⁰ See *Johnson & Johnson, Inc. v. Wallace A. Erickson & Co.*, 627 F.2d 57, 59 (7th Cir. 1980) (“The . . . [term of patent] exclusion is a right and not a matter of grace or favor . . . It is a property right . . . of which the patentee cannot be deprived without due process of law.”).

⁴¹ Cf. *Kendall v. Winsor*, 62 U.S. 322, 329 (1859) (“[W]hilst inventors are bound to diligence and fairness in their dealings with the public, with reference to their discoveries on the other hand, they are by obligations equally strong entitled to protections against frauds or wrongs

perpetrated in PTO proceedings by others.⁴² If and when fraud does occur, patent holders must have recourse to some remedy.

Land owners, when false statements are published disparaging their property rights, ordinarily have recourse to a number of remedies, such as actions for slander of title, abuse of process, or malicious prosecution. Whether patent owners may seek the same remedies for damages suffered as a result of false aspersions cast on their property by baseless reexamination proceedings is a question which was presented by a recent case before the Federal Circuit. In *Lockwood v. Sheppard, Mullin, Richter & Hampton*,⁴³ the patent holder, Lockwood, alleged that the defendants filed fraudulent and misleading requests for reexamination of two of his patents.⁴⁴ The reexaminations ultimately concluded in Lockwood's favor, confirming the validity of his patents, at which point he

practiced to pirate from them the results of thought and labor, in which nearly a lifetime may have been exhausted . . . which fruits the public are ultimately to gather.”)

⁴² See *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 818 (1945) (“[P]arties to Patent Office proceedings have an uncompromising duty to report to it all facts concerning possible fraud or inequitableness”). 37 C.F.R. § 11.18 (2010), which prohibits “knowingly and willfully mak[ing] any false, fictitious or fraudulent statements or representations” to the PTO, applies to any “party presenting such paper [to the PTO], whether a practitioner or non-practitioner,” and thus would govern anyone requesting reexamination. See *Carter v. ALK Holdings, Inc.*, 605 F.3d 1319, 1325 (Fed. Cir. 2010) (“37 C.F.R. § 11.18 governs representations to the PTO by practitioners and non-practitioners.”). The Tenth Circuit has specifically held that the duty of candor to the PTO extends to those challenging the validity of issued patents, as well as to patent holders and applicants. See *Ball Corp. v. Xidex Corp.*, 967 F.2d 1440, 1447 (10th Cir. 1992) (“We hold that the duty of candor and good faith in the reexamination proceeding applies to both the requester and the patent defender, as well as to their respective attorneys and agents.”). Recently there was a legislative attempt to clarify that the duty of candor extends to “parties adverse to a patent or application,” but the bill was not enacted. See Patent Reform Act of 2005, H.R. 2795, S. 137, 109th Cong. (2005). I thank Lisa Dolak for bringing this provision of the legislation to my attention.

⁴³ *Lockwood v. Sheppard, Mullin, Richter & Hampton, LLP*, No. 09-CV-5157, slip op. (C.D. Cal. Nov. 24, 2009), *aff'd*, No. 2010-1189, 2010 U.S. App. LEXIS 23707 (Fed. Cir. Nov. 15, 2010). The case here cited was filed in federal court after a California Court of Appeals unanimously held that Lockwood's complaint (previously filed in California state court) presented a substantial question of federal patent law, and was thus subject to exclusive federal jurisdiction under 28 U.S.C. § 1338. See *Lockwood v. Sheppard, Mullin, Richter & Hampton*, 93 Cal. Rptr. 3d 220 (Ct. App. 2009).

⁴⁴ See Liz McKenzie, *Sheppard Mullin Aims to Quash Lockwood Fraud Suit*, Law360, Sept. 14, 2009 (“Lockwood claims that the firm manipulated the dates on one of the publications submitted to the USPTO and misrepresented what [the other publications] actually disclosed. The USPTO may not have granted the re-examination had the firm not misrepresented information, the inventor argues.”).

brought several state law claims against the defendants.⁴⁵ The district court, however, dismissed the complaint, holding, inter alia, that “federal patent law preempts state law . . . claims” such as Lockwood’s—and disregarding well-settled Federal Circuit precedent that allows tort claims to go forward when the “conduct before the PTO [at issue] . . . amounted to fraud or rendered the . . . process a sham.”⁴⁶

The principal issue on appeal in *Lockwood* was whether the Supreme Court’s decision in *Buckman Co. v. Plaintiffs’ Legal Committee*⁴⁷—which held that state law claims for fraud-on-the-FDA were preempted by a federal statutory scheme empowering the FDA to punish and deter fraud—applied to the PTO context and served to preempt Lockwood’s claims for malicious prosecution and fraud. Though the oral argument suggests that the panel was sharply divided on the preemption question, ultimately the panel affirmed the district court without opinion.⁴⁸ The court’s stunning decision not to issue an opinion in a case involving the weighty question of whether state common law is preempted was the subject of some dismay within the patent community; one commentator remarked that “the Rule 36 opinion [in *Lockwood*] is surprising given the lack of precedent on this topic, the obvious third-party interest in the outcome of the case, and the dramatic rise in the use of reexaminations over the past decade,” concluding that the outcome of “this case opens the door to some amount of bad-behavior in the filing of reexamination requests.”⁴⁹ Moreover, the *Lockwood* case presented the court with multiple issues of first impression, and seemingly met most of the court’s own criteria

⁴⁵ Lockwood also brought civil RICO claims against the defendants, and these were also dismissed by the district court. However, given the difficulties involved in pleading RICO, it cannot be considered the remedy of first resort for victims of unwarranted reexamination proceedings.

⁴⁶ *Hunter Douglas Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1336 (Fed. Cir. 1998); see also *Dow Chem. Co. v. Exxon Corp.*, 139 F.3d 1470, 1475 (Fed. Cir. 1998) (when a tort claim “does not present an obstacle to the execution and accomplishment” of the federal patent laws, it is not preempted); *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1356 (Fed. Cir. 1991) (tort action allowed when “it is shown that the entire federal agency action was a ‘sham’”).

⁴⁷ 531 U.S. 341 (2001).

⁴⁸ See Fed. Cir. R. 36 (permitting court to “enter a judgment of affirmance without opinion . . . when it determines that . . . an opinion would have no precedential value”).

⁴⁹ See Dennis Crouch, *Untouchable: Sham Reexamination Requests*, Patently-O, Nov. 15, 2010, <http://www.patentlyo.com/patent/2010/11/untouchable-sham-reexamination-requests.html>. Other practitioners remarked that “although the case is non-precedential, the result in this case would seem to make it more difficult to challenge third party requesters filing a reexamination request, even if there are allegations that the requests were fraudulent.” See also *Federal Circuit Affirms District Court’s Dismissal of Sham-Reexamination Lawsuit*, The Reexamination Center, Nov. 17, 2010, <http://reexamcenter.com/2010/11/federal-circuit-affirms-district-court’s-dismissal-of-sham-reexamination-lawsuit/>.

meriting precedential decision.⁵⁰

Whatever the reason for the panel's reluctance to decide these questions, the result has perpetuated uncertainty as to whether patent holders have any recourse when they are effectively deprived of their patent rights through wrongfully instigated reexamination proceedings. Although nonprecedential, the Federal Circuit's *Lockwood* decision erects a significant hurdle to future inventors seeking state law remedies for the harm resulting from unwarranted reexamination proceedings. Until these issues are raised anew, unscrupulous requesters need not fear liability for misconduct that harms patent holders. The Federal Circuit has effectively sent a signal that it is now "open season" to flood the PTO with meritless requests for reexamination designed for no other purpose than to harass patent holders.⁵¹ Under the current ruling, there would seem to be little to discourage anyone from using the reexamination process to render patent rights a nullity.

Such a state of affairs, if allowed to continue, will inevitably threaten the quid pro quo of the patent system, jeopardizing the objective of disclosure⁵² by weakening the

⁵⁰ The Federal Circuit states that "[t]he court's policy is to limit precedent to dispositions meeting one or more of" fourteen separate criteria identified as (a) – (n). See United States Court of Appeals for the Federal Circuit, Internal Operating Procedures, available at <http://www.cafc.uscourts.gov/images/stories/rules-of-practice/IOP.pdf>. Of the court's own criteria, *Lockwood* met at least eight: *Lockwood* (a) was a test case, determining whether patent holders would have a private right of action and remedy for unwarranted reexamination proceedings; (b) raised issues of first impression; (c) would have established a new rule of law regarding tort claims premised on "sham" reexamination proceedings; (e) required the application of Federal Circuit and Supreme Court precedent to facts significantly different from those on which the case law is based; (f) presented a possible conflict between the "sham exception" to preemption created by Federal Circuit precedent, and the Supreme Court's decision in *Buckman*; (g) raised an issue never treated by the court, and of substantial interest to amici supporting both parties and to the patent community generally, affecting the rights of all future patent holders subject to reexamination; (h) presented a significantly new factual situation, relevant to all future patent holders subject to reexamination; and (i) required a new interpretation of the Supreme Court's decision in *Buckman*, which dealt with preemption in the context of a different federal agency (the FDA) and with respect to a tort claim different from the malicious prosecution claim at issue in *Lockwood*.

⁵¹ Cf. Jason S. Oliver, *Reexamining the Meaning of a "Substantial New Question of Patentability": Amending the Patent Reexamination Provision's Threshold Requirement*, 53 Syracuse L. Rev. 1093, 1108-09 (2003) ("[I]t is important to understand that the act of initiating a patent reexamination proceeding should not be trivialized to the point at which reexamination becomes automatic, or undo [sic] harassment of the patentee proliferates.").

⁵² Cf. *Universal Oil Prods. Co. v. Globe Oil & Ref. Co.*, 322 U.S. 471, 484 (1944); Katherine M. Zandy, *Too Much, Too Little, or Just Right? A Goldilocks Approach to Patent Reexamination Reform*, 61 N.Y.U. Ann. Surv. Am. L. 865, 889 (2006) ("Subjecting patent holders to a constant onslaught of cheap, easy-to-pursue patent reexaminations 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.").

patent right of exclusion, and imperiling (according to one estimate) more than \$57 billion in receipts from the licensing of U.S. intellectual property.⁵³ Patents would be in danger of “becom[ing] little more than publications which create ill-defined and evanescent rights.”⁵⁴ The public, although not the direct target of the fraud, will nonetheless suffer from a weakened patent system and less technological innovation. PTO Director David Kappos recently said that “[e]very patent application that we sit on is an American job not being created.”⁵⁵ By the same token, for every patent whose value is diminished by unwarranted reexamination, existing American jobs are threatened: as Director Kappos subsequently acknowledged, “there are lots and lots of jobs riding on the patents we have in reexamination.”⁵⁶ Startup companies, for whom patents can be critical to secure financing,⁵⁷ will find it more difficult to create jobs. Their patents can be vitiated by reexaminations, and the patent right in general will be perceived as too weak to protect investment.

Accordingly, it is of the utmost importance that this problem be explored in a rigorous and scholarly manner, so that Congress, the courts, the patent bar, and industry alike may be in the best position possible to collaborate in crafting a satisfactory solution. This article is submitted as the first attempt to do so. Although the literature dealing with inequitable conduct by patent applicants is vast, none of it has yet explored misconduct perpetrated by *third parties*⁵⁸ before the PTO. The possibility that reexamination proceedings might be subject to abuse of this kind, although contemplated as they were

⁵³ Kate McElhone, *Inequitable Conduct: Shifting Standards for Patent Applicants, Prosecutors, and Litigators*, 17 *Tex. Intell. Prop. L.J.* 385, 386 n.2 (2009), citing 1 *Nat'l Sci. Bd., Nat'l Sci. Found., Science and Engineering Indicators 2008*, at 6-31 (2008), available at <http://www.nsf.gov/statistics/seind08/pdf/volume1.pdf>.

⁵⁴ William G. Conger, Comment, *Patent Reexamination Reexamined*, 1986 *Det. C.L. Rev.* 523, 542 (1986).

⁵⁵ John Schmid, *Congress Deals Funding Blow to Patent Office*, *Milwaukee J. Sentinel*, Dec. 29, 2009.

⁵⁶ David Kappos, *Improving the Reexamination Process*, June 6, 2010, Director's Forum: David Kappos' Public Blog, http://www.uspto.gov/blog/director/entry/improving_the_reexamination_process.

⁵⁷ See Ronald J. Mann and Thomas W. Sager, *Patents, Venture Capital, and Software Start-ups*, 36 *Res. Pol'y* 193 (2007) (finding significant correlation between patenting and, among other things, rounds of financing, total investment, late-stage financing, firm longevity).

⁵⁸ By “third party,” I refer to a party requesting reexamination which is neither the patent holder himself nor the PTO, but a *third party* wishing to challenge the patent's validity. The third-party requester is usually a rival of the patent holder and very often has been sued by him for patent infringement, or threatened with suit. In a few cases, the third party may be an industry-wide consortium or non-profit interest group.

being passed into law and in a few instances thereafter,⁵⁹ has never been the sole focus of scholarship. This does not mean the phenomenon is too rare to be a matter of concern. To the contrary, I identify numerous allegations of such conduct⁶⁰ in addition to the *Lockwood* case. Moreover, in view of patent reform initiatives recently under consideration by Congress—proposals which only expand the opportunities for abuse by proposing a third form of reexamination proceeding⁶¹ marred by many of the same vulnerabilities as those which currently exist—a full investigation of these issues could not be more pressing.

This article will proceed as follows: Section II will explore the realities of the patent reexamination process and its impact on patent holders. Section III will consider the ways in which reexamination is particularly vulnerable to abuse, survey the burdens of the process for patent holders, and look closely at several instances in which patent holders complained of misconduct by the requester. Section IV will examine the *Lockwood* case and present several reasons why a different approach is compelled both by caselaw and considerations of sound public policy. Finally, Section V will conclude with a number of proposals which, if enacted, might better protect current and future variants of the reexamination process from abuse.

⁵⁹ See Raymond Alexander Mercado, *New Light on the Blackberry Litigation*, IP L. & Bus., Aug. 5, 2008, at 11-14 (describing attempts of counsel for third-party requester to obtain off-the-record interviews with PTO officials regarding the status of the reexams, though such interviews are prohibited by, e.g., 37 C.F.R. 1.560(a) (“Requests that reexamination requesters participate in interviews with examiners will not be granted.”) and 37 C.F.R. 1.955 (“Interviews prohibited in *inter partes* reexamination proceedings.”)); see also Robert Greene Sterne, Kenneth C. Bass, III, Jon E. Wright & Lori A. Gordon, *Reexamination Practice with Concurrent District Court or USITC Patent Litigation*, (paper presented at The Association of Corporate Patent Counsel Annual Meeting, Jan. 26, 2009) at 19 n.50 (referring to the possibility of “‘reverse’ inequitable conduct” being found for third-party “requester submissions [that are] clearly hiding the ball from reexamination examiners” and stating that “we know the PTO is thinking about these issues”); Blair Silver, *Controlling Patent Trolling With Civil RICO*, 11 Yale J.L. & Tech. 70, 91 (2009) (contemplating the applicability of civil RICO to the context of various post-grant proceedings before the PTO, but concluding with respect to existing reexamination procedures that “[t]he limited scope of review in reexamination suggests a lower possibility for fraud” and that “filings during these proceedings are likely not to qualify as predicate acts under civil RICO”); Zandy, *supra* note 51, at 889-92 (predicting that much-expanded use of reexamination procedures is likely to invite harassment and inequitable conduct by third-party requesters); William J. Speranza and Michael L. Goldman, *Reexamination – The Patent Challenger’s View*, 69 J. Pat. & Trademark Off. Soc’y 295, 296 (1987) (“[R]eexamination . . . has potential for misuse by the patent challenger to achieve less-than-noble aims, such as delay or harassment, in an effort to escape liability where no legitimate defense exists.”).

⁶⁰ See *infra* Section III.D.

⁶¹ The Patent Reform Act of 2010, S. 515, 111th Cong. (2010) provides for a new form of reexamination proceeding, a so-called post-grant review, in addition to existing *ex parte* and *inter partes* reexamination procedures. One would have hoped that Congress would begin by mending current procedures before creating new opportunities for wrongdoing.

II. THE IMPACT OF REEXAMINATION ON PATENT LICENSING AND ENFORCEMENT

A. Overview

The reexamination statute was enacted to provide a mechanism for correcting PTO errors in patent issuance and for thereby restoring confidence in overall patent validity.⁶² However, Congress emphatically did not intend for the reexamination process to introduce new opportunities for harassment, recognizing that its “broad purpose must be balanced against the potential for abuse, whereby unwarranted reexaminations can harass the patentee and waste the patent life.”⁶³ Yet gamesmanship of the reexamination process has, in the view of some, become more the rule than the exception. Reportedly it has become “standard procedure” that a defendant in patent litigation “take an aggressive stance by saying it plans to request a re-exam on that patent-in-suit or even all” of the plaintiff’s patents.⁶⁴ The threat of reexamination is then used as leverage in licensing negotiations,⁶⁵ intimidating patent-holders into settling out of court for lower amounts than those to which the value of their patents might entitle them.⁶⁶

⁶² See *Patlex I*, 758 F.2d 594, 608 (Fed. Cir. 1985) (“We view the reexamination statute as of the class of ‘curative’ statutes, designed to cure defects in an administrative system.”); but see Mark D. Janis, *Rethinking Reexamination: Toward a Viable Administrative Revocation System for U.S. Patent Law*, 11 Harv. J.L. & Tech. 1 (1997) (arguing that reexamination’s aim of providing a curative mechanism—originating, as it did, in a desire to resuscitate the presumption of validity, which in Janis’s view has now become sufficiently strong—should now yield to other policy considerations, such as providing a true alternative to litigation, necessitating the replacement of existing reexamination procedures with a new “administrative revocation system” for patents).

⁶³ *In re Recreative Techs. Corp.*, 83 F.3d 1394, 1397 (Fed. Cir. 1996).

⁶⁴ Erin Coe, *Patent Re-Exams Are Growing as Key Defense Tactic*, Law360, Oct. 23, 2008.

⁶⁵ See Handal, *supra* note 19, at 254 (“[A] party threatened with litigation has the opportunity to file reexamination requests on the patents concerned, or without doing anything, has the threat of such action to use in any negotiation which may be in progress. Likewise, a threatened party also has the opportunity of putting a number of patents into reexamination which are not even related to the subject matter of the threat. Thus, even where the party threatened with litigation is in a relatively weak position with respect to the asserted patents, he can very viably threaten to retaliate against the patent owner by counter-attacking where the patent owner is in a relatively weak position.”).

⁶⁶ *Id.* Ironically, Congress intended that the reexamination process should have just the opposite effect: “Patent office reexamination will greatly reduce, if not end, the threat of legal costs being used to ‘blackmail’ such [patent-] holders into allowing patent infringements or being

Third-party requesters are savvy about the consequences of reexamination on the enforceability of patents, and they know that the threat of filing reexamination is often effective. As the Executive Director of the Public Patent Foundation (a non-profit organization that files reexaminations against patents it deems questionable) has explained, a patent in reexamination is “like a lame duck president . . . [h]e’s technically president, but does Congress really need to negotiate with him to get things passed?”⁶⁷ In conferring “lame-duck status” to a patent, reexamination can essentially render the patent right void in the eyes of all those wishing to make use of the invention without compensating the patent owner.

One practitioner has noted that a reexamination proceeding “puts [the patent’s scope] in uncertain terms . . . [and consequently] a patent holder has to wait to assert claims and that harms enforceability.”⁶⁸ Reexaminations can thus be extremely damaging to patent holders even when instigated by third parties acting within the letter of the law. Although reexamination is statutorily required to be conducted with “special dispatch,”⁶⁹ in practice the proceedings can take years to complete.⁷⁰ Even when a reexamination is actually merited and prior art proves a patent’s scope to have been too broad, the proceeding can last more than half the patent term, as can be seen from two reexaminations of almost legendary length: the 9-year reexamination of the so-called “Compton” patent⁷¹ and the nearly 12-year reexamination of the Billings patent.⁷² An

forced to license their patents for nominal fees.” H.R. Rep. No. 96-1307, pt. 1, at 4 (1980), *reprinted in* 1980 U.S.C.C.A.N., at 6463.

⁶⁷ Terri Somers, *Sweeping Stem Cell Patents Rejected*, San Diego Union-Trib., Apr. 3, 2007, at A10.

⁶⁸ Erin Coe, *Re-Exam Delays Cause Trouble for Patent Owners*, Law360, Mar. 24, 2009 (quoting attorney Rajiv P. Patel).

⁶⁹ See 35 U.S.C. § 305 (2010).

⁷⁰ Similarly, the substance of the proceeding can take years to *begin*. Once the PTO has made its determination to initiate reexamination, it can take many months before the Office will issue an “office action” or ruling as to the validity of the claims. In one of the Lockwood reexaminations, the PTO did not issue a first office action on the merits until *two years* after the reexamination was requested, despite numerous inquiries from the patent holder’s attorney into the status of the first office action. Nineteen months into the reexamination, Lockwood’s attorney protested in a letter to the PTO that the “file has already passed through four examiners, and the patent owner is still awaiting a first office action. Important licensing agreements depend upon the outcome of this re-examination. The patent owner is being severely damaged by the undue delay. We request that the file be given the urgent priority it now deserves.” Miscellaneous Incoming Letter, Ex Parte Reexamination of U.S. Patent No. 6,289,319, Control No. 90/006,623 (Dec. 21, 2004). The first office action would not arrive, however, for another five months.

⁷¹ U.S. Patent No. 5,241,671 was issued to Encyclopaedia Britannica, Inc., in October 1989. The CEO of Compton’s NewMedia (an Encyclopaedia subsidiary), Stanley Frank, announced that “[e]verything that is now multimedia and computer-based utilizes this invention,” prompting

inventor can lose years of patent life, though in the end only a slight narrowing of the patent's claims might have been all that was needed to sustain its validity over the prior art. "That's what's so pernicious about re-exams," one patent holder has commented, "the patent life wastes while the PTO does nothing."⁷³

Former Federal Circuit Chief Judge Paul R. Michel, recognizing the lengthy duration of reexaminations, recently registered his skeptical view of the process: To me, the proposed alternative for weeding out bad patents is unconvincing. Can we really get a faster, better, and cheaper review of challenged patents at the PTO than in the courts? Experience with the existing PTO reexamination procedures raises doubts. And the PTO is already overwhelmed by ex parte [re]examinations with average pendencies of over three years, in some arts, far longer.⁷⁴

Although reexamination proceedings take years to conclude, meanwhile severely undermining the inventor's opportunity to enforce, sell, license, or otherwise benefit from his property rights,⁷⁵ no provision for patent term extension now exists—even when the patent's validity is confirmed at the end of the proceeding.⁷⁶ As another patent practitioner has observed, "[i]f a district court judge decides to grant a stay [of the patent-holder's enforcement litigation], a patent owner may be destroyed. Some re-exams could

an industry outcry. John Eckhouse, *Key Patent to Shake Multimedia Industry*, S.F. Chron., Nov. 15, 1993. In response, PTO took the unusual step of ordering reexamination on its own initiative in December 1993. The reexamination, which resulted in several claim amendments, was concluded only in July 2002. For a highly critical account of the circumstances surrounding the Compton reexamination, see Terri Suzette Hughes, *Patent Reexamination and the PTO: Compton's Patent Invalidated at the Commissioner's Request*, 14 J. Marshall J. Computer & Info. L. 379 (1996).

⁷² U.S. Patent No. 4,714,989 was issued to inventor Roger E. Billings in October 1986. Subsequently, Billings attempted to enforce his patent against Novell, Inc., which requested reexamination in June 1994; reexamination was initiated in August 1994 and concluded only in January of 2006.

⁷³ See Mercado, *supra* note 58, at 12 (quoting the president of patent-holding company NTP, Inc.).

⁷⁴ Former Chief Judge Paul R. Michel, Address at the Federal Trade Commission Hearing on the Evolving IP Marketplace: Where Are We Now on Patent System Improvements and How Can We Best Make Further Progress? (Dec. 5, 2008).

⁷⁵ *Patlex I*, 758 F.2d 594, 599-600 (Fed. Cir. 1985) ("[P]atent property rights, necessarily including the right 'to license and exploit patents', fall squarely within both classical and judicial definitions of protectable property . . . [and] the right to exclude . . . is implemented by the licensing and exploitation of patents.").

⁷⁶ Yet 35 U.S.C. § 154(b) provides for term extension owing to PTO delays during the application process. 35 U.S.C. §155 and 156 provide for term extension under other circumstances.

take five to 10 years to complete.”⁷⁷

By one count, reexamination requests from companies accused of patent infringement have recently more than tripled,⁷⁸ and motions by defendants to stay patent litigation until the conclusion of reexamination are being granted more than 60% of the time.⁷⁹ An informal study estimated that certain districts, such as the Northern District of Illinois and the Northern District of California, are granting motions to stay litigation pending reexamination approximately 85% and 65% of the time, respectively.⁸⁰ Indeed, many courts in the Northern District of California have maintained a “liberal policy in favor of granting motions to stay . . . pending the outcome” of PTO reexamination proceedings.⁸¹ By contrast, courts in the Eastern District of Texas,⁸² recognizing the “potential for use of the reexamination process as a dilatory tactic” and concluding that such a policy would effectively “elevate” reexamination into a “requisite procedure before a lawsuit may move forward,” have stated that “there exists no policy [in this district] to routinely grant such motions.”⁸³ One practitioner has opined that “it is

⁷⁷ See Coe, *supra* note 63.

⁷⁸ Joseph Rosenbloom, *The Reexamination Gamble*, IP L. & Bus., July 1, 2008, at 31.

⁷⁹ *Id.* at 32.

⁸⁰ See Matthew Smith, *Stays Pending Reexamination*, Patently-O, Nov. 1, 2009, <http://www.patentlyo.com/patent/2009/11/the-following-guest-post-is-by-matthew-smith-the-grant-rate-of-motions-to-stay-is-highly-judge-dependent-and-somewhat-less-ob.html>.

⁸¹ *Like.com v. Superfish, Inc.*, No. 09-CV-5805-SBA, 2010 U.S. Dist. LEXIS 70458, at *4 (N.D. Cal. June 30, 2010) (citing *ASCII Corp. v. STD Entm't USA, Inc.*, 844 F. Supp. 1378, 1381 (N.D. Cal. 1994)).

⁸² Smith's study, *supra* note 79, finds that the Eastern District of Texas grants such stays only 20% of the time, making it one of the few fora where motions to stay pending reexamination seem to be heard with disfavor.

⁸³ *Nidec Corp. v. LG Innotek Co., Ltd.*, No. 6:07CV108, 2009 WL 3673433, at *6 (E.D. Tex. Apr. 3, 2009). However, in *Nidec* these considerations merely led the court to conclude that the “simplification of issues” factor was a “neutral” one in determining whether to grant or deny the stay. In deciding to deny the stay, the court was animated more by the possibility that “where the parties are direct competitors,” staying the litigation “will not only compound Plaintiff's damages during the course of the stay, but it could also cause Plaintiff irreparable injury that is not remediable by money damages.” *Id.*, at *3-4; see also *O2 Micro Int'l Ltd v. Beyond Innovation*, No. 2-04-CV-32 (TJW), 2008 U.S. Dist. LEXIS 87352, at *7 (E.D. Tex. Oct. 29, 2008) (“The parties are direct competitors in the market and a denial of timely enforcement of the plaintiff's patent rights does indeed unduly prejudice the plaintiff.”). Obviously this gives little solace to patent holders who are unable or unwilling to engage in the business of practicing their inventions. More encouragingly, in *Soverain Software LLC v. Amazon.com, Inc.*, 356 F. Supp. 2d 660, 662-63 (E.D. Tex. 2005), the court stated without reference to the businesses of the litigants that it was “unwilling to adopt a per se rule that patent cases should be stated during

somewhat ironic . . . that courts view . . . reexamination favorably as an antidote that shortens litigation when in fact it averages a delay of 19 months.”⁸⁴ The practice of filing requests for reexamination in order to stay the lawsuit has become so routine that failure to do so has formed the basis for a recent malpractice lawsuit, in which the plaintiff complained that “[p]roper pursuit of a patent reexamination could have resulted in a stay of the . . . litigation for a substantial period of time,” observing that “[a]lthough technically a stay, the reexamination process often serves to effectively end the patent litigation in many cases and could have terminated [this] case.”⁸⁵

Appreciating the tendency of defendants to use reexamination proceedings as a basis for moving to stay litigation, a few judges have refused to “sanction the most blatant abuse of the reexamination process” and have chastised defendants for attempting to “game the system.”⁸⁶ However, this has typically been limited to instances in which reexamination was sought at a late⁸⁷ stage of litigation.⁸⁸

reexamination because . . . [t]o do so would not promote the efficient and timely resolution of patent cases, but would invite parties to unilaterally derail timely patent case resolution by seeking reexamination.”

⁸⁴ Allen M. Leung, *Legal Judo: Strategic Applications of Reexamination Versus an Aggressive Adversary (Part II)*, 84 J. Pat. & Trademark Off. Soc’y 553, 558 (2002) (citing Wayne O. Stacy, *Reexamination Reality: How Courts Should Approach a Motion to Stay Litigation Pending the Outcome of Reexamination*, 66 Geo. Wash. L. Rev. 172, 193 app. A (1997)). Since Stacy’s article was published, the average pendency of reexamination has increased from 19 months to 25 months. See Ex Parte Reexamination Filing Data, June 30, 2010, at 2 (PTO’s statistics), available at http://www.uspto.gov/patents/EP_quarterly_report_June_30_2010.pdf.

⁸⁵ Complaint at 7, *Ecast Inc. v. Morrison & Foerster LLP*, No. CGC-09-487063 (Cal. Super. Ct., Apr. 8, 2009).

⁸⁶ *Fresenius Medical Care Holdings, Inc. v. Baxter Int’l, Inc.*, No. C03-1431SBA, 2007 WL 1655625, at *6 (N.D. Cal. June 6, 2007) (denying plaintiffs’ motion to stay the declaratory judgment action in view of requests for reexamination filed at an advanced phase of the litigation).

⁸⁷ See Christopher M. Pickett, *The Patent Reexamination Procedure — A Complete Guide Through the Statutes, the Rules and the Caselaw*, 75 J. Pat. & Trademark Off. Soc’y 297, 311 (1993) (recognizing that “there is some potential for a party to so abuse the system by applying for a reexamination of a patent after a lengthy and costly discovery period”).

⁸⁸ See *Delta Frangible Ammunition, LLC v. Sinterfire, Inc.*, No. 06-1477, 2008 U.S. Dist. LEXIS 78999, at *3-4 (W.D. Pa. Oct. 7, 2008) (denying stay, noting that “[c]ourts are wary of” motions to stay that “suggest potential attempts to manipulate the reexamination process,” and that “[d]efendant’s delay of approximately 22 months since the filing of [the] lawsuit to request reexamination further amplifies [the c]ourt’s concerns”); see also *Musco Corp. v. Qualite, Inc.*, No. 1:94-CV-592, 1996 U.S. Dist. LEXIS 972, at *9 (W.D. Mich. 1996) (denying defendant’s motion to stay when it was brought after trial, and finding that “such abuse of the re-examination process is intolerable”); *Freeman v. Minn. Mining & Mfg. Co.*, 661 F. Supp. 886, 888 (D. Del. 1987) (opining that a motion to stay would be “a mere dilatory tactic” where defendant had been

The level of familiarity with the realities of patent reexamination at the district court level is itself a problem. “A lot of district court judges don’t understand what is really going on in the re-exam world,” admits one attorney.⁸⁹ During a hearing in a case herein discussed, counsel for the defendant and third-party requester responded to the judge’s inquiry regarding how often patents are reexamined by telling her “maybe one percent . . . I think one percent of the requests [are] granted,”⁹⁰ when in fact approximately 94% of requests for reexamination are granted.⁹¹ Clearly a federal judiciary better informed about patent reexamination would prevent misleading statements from counsel whose memories appear to fail them. At the very least, one could say that better efforts are needed from advocates to prevent misinformation from improperly influencing the judiciary.

When it passed the original reexamination procedure into law, Congress had sought to strengthen “investor confidence in the certainty of patent rights”⁹² and “promote industrial innovation by assuring the kind of certainty about patent validity which is a necessary ingredient of sound investment decisions.”⁹³ In practice, however, reexamination has done much to diminish that certainty. Investors lose confidence in the value of patent rights from the moment reexamination is initiated.⁹⁴ And for companies especially dependent on their intellectual property, the uncertainty of reexamination can

aware of prior art on which reexamination would be based for at least eight months before filing the request for reexamination, and where the case had been pending for more than two years); *Digital Magnetic Sys., Inc. v. Ansley*, No. CIV-81-1190-T, 1982 WL 52160, at *1 (W.D. Okla. 1982) (cautioning that “[p]arties should not be permitted to abuse the process by applying for reexamination after protracted, expensive discovery or trial preparation” but acknowledging that “in cases . . . which have not progressed beyond the initial litigation stages . . . the reexamination procedure should be utilized”).

⁸⁹ Coe, *supra* note 63.

⁹⁰ Counsel had been registered to practice before the PTO for more than 15 years at the time of this misstatement. Transcript of Tutorial and Hearing on Motion for Preliminary Injunction at 78-79, *Pergo, Inc. v. Faus Group, Inc.*, No. 5:05-CV-50-FL(1) (E.D.N.C. Sept. 23, 2005). See *infra* Section III.D.2 for further discussion of the case.

⁹¹ Of 614 determinations on requests for ex parte reexamination during Fiscal Year 2009, the PTO granted 574, or about 94%. See USPTO Performance and Accountability Report for Fiscal Year 2009, *supra* note 38, at 124 tbl.13A.

⁹² See H.R. Rep. No. 96-1307, pt. 1, at 4 (1980), reprinted in 1980 U.S.C.C.A.N. at 6462.

⁹³ *Id.* at 6463.

⁹⁴ Former Chief Judge Michel has argued in a broad sense that when the value of patents decreases, “corporate wealth will suffer. Research and development budgets will almost certainly go down. Therefore, innovation will go down. Therefore, the infrastructure on which our future prosperity as a country heavily rests will be significantly threatened, in my judgment.” Michel, *supra* note 27.

do great damage to shareholder value, as was recently observed when Tessera Technologies' stock fell by 39% in a single day⁹⁵ due to a preliminary ruling in a reexamination. Reexamination can also have a severe impact upon the operations of such companies, as was seen when Avistar Communications Corp. was forced to lay off 25% of its work force shortly after challenges were filed against its entire patent portfolio.⁹⁶

All these things point toward flaws in existing reexamination procedures,⁹⁷ but most disturbing are the allegations that many third parties requesting reexaminations have deceived the PTO into granting them through inequitable conduct or outright fraud. The misconduct complained of has taken multiple forms, including: the withholding⁹⁸ or misrepresentation⁹⁹ of material information concerning the date and public accessibility of purported prior art; alterations of drawings and figures contained in prior art;¹⁰⁰ deliberate mistranslation of foreign prior art;¹⁰¹ and false statements as to the contents of prior art.¹⁰² That falsifying prior art, or withholding material information about it, should

⁹⁵ The one-day loss represented more than \$437 million in shareholder value.

⁹⁶ Avistar's CEO stated "This single action against Avistar's complete U.S. patent portfolio [of 29 patents] represents over 5 percent of the entire 2007 third-party re-examination challenges at the USPTO." *Avistar to Cut 25% of Staff, Says Microsoft's Patent Challenge Largely to Blame*, Silicon Valley / San Jose Bus. J., Mar. 26, 2008.

⁹⁷ Even John M. Whealan, during his tenure as Deputy General Counsel for Intellectual Property Law and Solicitor at the PTO, candidly admitted that "the reexamination system . . . did not work well." Remarks of John M. Whealan at The Fifth Annual Hot Topics in Intellectual Property Law Symposium at Duke University Law School, *available at* <http://realserver.law.duke.edu/ramgen/spring06/students/02172006b.rm>. The steps he touted as having been taken by the PTO to improve the system—consisting essentially in placing more experienced patent examiners in charge of reexamination—do little, unfortunately, to address the issue raised here.

⁹⁸ See *Total Containment, Inc. v. Environ Prods., Inc.*, 921 F. Supp. 1355, 1378 (E.D. Pa. 1995) (finding that defendants withheld material information from the PTO bearing on the date and public accessibility of purported prior art).

⁹⁹ See Complaint at 16-17, *Lockwood v. Sheppard, Mullin, Richter & Hampton, LLP*, No. 09-CV-5157 (C.D. Cal. July 15, 2009) (alleging that defendants misrepresented the dates and public accessibility of purported prior art in their requests for reexamination).

¹⁰⁰ See *infra* Section III.D.1-2 for alleged examples of such alteration.

¹⁰¹ See *infra* Section III.D.1 for an alleged example of deliberate mistranslation.

¹⁰² See Complaint at 16-23, *Lockwood v. Sheppard, Mullin, Richter & Hampton, LLP*, No. 09-CV-5157 (C.D. Cal. July 15, 2009) (further alleging that defendants misrepresented the contents of prior art); see *infra* Section III.D.3 for discussion of the Acumed reexamination, in which the patent holder alleged that the requester submitted a declaration which was misleading

constitute inequitable conduct is plain.¹⁰³ But inequitable conduct can also encompass misrepresentation of material fact, the proffering of “gross mischaracterizations or unreasonable interpretations”¹⁰⁴ before the PTO—as distinguished from mere attorney argument or the kind of zealous advocacy to which any client would be entitled. The reexamination process is especially vulnerable to these latter forms of misconduct

as to the contents of a submitted reference and failed to submit prior art that would have shown how the reference did not, in fact, read on the patent’s claims.

¹⁰³ Cf. *Beckman Instruments, Inc. v. Chemtronics, Inc.*, 439 F.2d 1369, 1378-79 (5th Cir. 1970) (“The Patent Office does not have full research facilities of its own, and it has never been intended by Congress that it should. In examining patents, the Office relies heavily upon the prior art references that are cited to it by applicants. It is therefore evident that our patent system could not function successfully if applicants were allowed to approach the Patent Office as an arm’s length adversary.”).

¹⁰⁴ See *Young v. Lumenis*, 492 F.3d 1336, 1349 (Fed. Cir. 2007); see also *Elan Corp. PLC v. Teva Pharms. USA, Inc.*, No. 07-552-SLR, 2008 U.S. Dist. LEXIS 17807, at *2 (D. Del. 2008) (holding that although “attorneys are permitted to advocate for their own interpretation of the prior art before an examiner, nonetheless, arguments made to the PTO can form the basis for inequitable conduct”); *Li Second Family Ltd. P’ship v. Toshiba Corp.*, 231 F.3d 1373, 1379 (Fed. Cir. 2000) (holding that repeated arguments that claims were entitled to the benefit of earlier filing dates, where a BPAI decision as to earlier patents implied otherwise, constituted “affirmative misrepresentations”); *Braintree Lab., Inc. v. Nephro-Tech, Inc.*, 81 F. Supp. 2d 1122, 1134 (D. Kan. 2000) (“[T]hat the prior art is independently considered by the PTO does not alleviate the applicant’s duty of candor to the PTO, and, therefore, a deliberate misrepresentation of the prior art’s teaching, if sufficiently material, may justify a finding of inequitable conduct.”) (citing *Northern Telecom, Inc. v. Datapoint Corp.*, 908 F.2d 931, 938 (Fed. Cir. 1990) (“[L]apse on the part of an examiner does not exculpate an applicant whose acts are intentionally deceptive”), *cert. denied*, 498 U.S. 920 (1990)); *Advanced Cardiovascular Sys., Inc. v. SciMed Life Sys.*, 63 F. Supp. 2d 1064, 1076 (N.D. Cal. 1999) (“[I]f there is evidence of an intent to deceive the patent examiner, there can be inequitable conduct even if the misrepresented prior art is before the patent examiner”); *Semiconductor Energy Lab. Co., Ltd. v. Samsung Elecs. Co., Ltd.*, 4 F. Supp. 2d 477, 495 n.36 (E.D. Va. 1998) (“It is worth noting that advocacy before the PTO is appropriate. But, there is a line between legitimate advocacy in accordance with the duty of candor, and advocacy that the applicant surely knows has a propensity to mislead the examiner.”), *recons. denied*, 24 F. Supp. 2d 537, 542 (E.D. Va. 1998), *aff’d on other grounds*, 204 F.3d 1368, 1371 (Fed. Cir. 2000); *Gambro Lundia AB v. Baxter Healthcare Corp.*, 110 F.3d 1573, 1581 (Fed. Cir. 1997) (“overstatements” and “exaggerations” regarding a prior art reference could “rise to the level of gross falsification”); *A.B. Dick Co. v. Burroughs Corp.*, 617 F. Supp. 1382, 1393 (N.D. Ill. 1985) (argument distinguishing invention from prior art was an “affirmatively misleading representation”), *aff’d* 798 F.2d 1392, 1400 (Fed. Cir. 1986). Cf. Rene D. Tegtmeyer, *Policy Issues in Implementing Reexamination*, 9 AIPLA Q.J. 214, 225 (1981) (“The duty [of disclosure] in reexamination extends to . . . assertions which can be considered in reexamination proceedings by the PTO.”) (emphasis added). The duty referred to by Tegtmeyer is, of course, that of the patent owner, but it suggests that some candor is required even in the statements one makes to the PTO, and it seems clear that this duty extends to those requesting reexamination.

because, once it begins (though under false pretenses), it cannot be stopped,¹⁰⁵ and the harm inures to the patent-holder. And while the majority of requests for reexamination are surely made in good faith, the seriousness of the alleged abuse forces us to consider the ways in which the reexamination process is susceptible to bad faith from the third party requester.

B. Reexamination Results in a Deprivation of Patent Rights

To the foregoing, the counterargument might be raised that the patent holder suffers no real harm from reexamination since, after all, a patent remains technically in force throughout the proceeding and any cancellation of claims will not become final until the patent holder has exhausted all appeals. Although stays of litigation are much more commonly granted than denied, they are of course made at the court's discretion,¹⁰⁶ and the presence of a reexamination cannot assuredly derail a patent holder's enforcement litigation or tie the hands of potential licensees. Nevertheless, it would be an absurd formalism to deny that unwarranted reexamination results in a deprivation of patent rights.¹⁰⁷

The Federal Circuit, a few years after the reexamination process was instituted, asserted:

[T]he effect, if any, of reexamination is temporary with respect to correctly granted patents. If the patents are upheld upon reexamination [the patent holder] will continue to possess the entire bundle of property rights that accompany a valid patent. . . . [He] may recover damages from those who have infringed in the interim. The full recompense that [he] seeks in his licensing program is not barred from ultimate recovery.¹⁰⁸

In *Patlex II*, the court slightly rephrased this assertion, stating that the “ramifications of

¹⁰⁵ See *infra* note 129 and accompanying text for further discussion of this problem of inertia in reexamination, including a narrow possibility of escaping that inertia by filing a petition to vacate under 37 C.F.R. § 1.181. In inter partes reexaminations, which are much rarer than the ex parte variety, there is apparently a possibility of terminating the reexamination if the third-party requester stipulates in a concurrent litigation that it has failed to carry its burden of proving invalidity. For a discussion, see the excellent and comprehensive treatise, Matthew A. Smith, *Inter Partes Reexamination*, 233–34 (1st ed., West 2008). However, as Smith rightly notes, “[t]his approach is not likely to work for ex parte cases, because there are no express estoppel provisions.” *Id.* at 234.

¹⁰⁶ See *Gould v. Control Laser Corp.*, 705 F.2d 1340, 1342 (Fed. Cir. 1983).

¹⁰⁷ See *Handal*, *supra* note 19, at 258 (“[T]he filing of a request for reexamination represents doing a sometimes substantial injury to the patentee.”).

¹⁰⁸ *Patlex I*, 758 F.2d 594, 603 (Fed. Cir. 1985).

an erroneous decision [to initiate reexamination] . . . on [a patent holder's] property interests is fairly viewed as the temporary deprivation of full enjoyment of patent rights, for the period needed to correct an erroneous determination to reexamine his patents."¹⁰⁹ While technically correct, the court's view in *Patlex I* and *II* does not take into account the full consequences of the reexamination process on patent rights. Nor did the roughly contemporaneous view of the PTO, heedless as it was of the practical effects of reexamination, that "[n]o deprivation of [a] patent owner's property interest results . . . [from] newly cited prior art being applied in [a rejection] in the reexamination."¹¹⁰

For example, it is quite possible, and in certain fast-moving industries such as the computer industry it is even likely, that a patented technology may have a very brief lifespan, entering widespread use and passing into obsolescence during the several-years-long pendency of a reexamination proceeding. Companies infringing the technology may well go out of business, making it impossible for inventors to collect the royalties they are owed. Thus, the inventor can be deprived of the "best years" of his patent through reexamination, with greatly diminished opportunities to reap its economic rewards once it emerges from the process. Clearly the failure of the *Patlex* court to appreciate this stems, in part, from an inadequate understanding of the effect that reexamination's lengthy pendency would come to have in the decades subsequent to that case.

Although a pending reexamination does not prevent anyone from purchasing a patent license, it certainly does nothing to encourage it,¹¹¹ and it provides users of the technology with every excuse for delay. In the *Lockwood* case, several companies replied to the plaintiff with letters refusing his offer to sell them licenses for the technology, expressly stating that the existence of reexamination proceedings was the reason for their refusal. The following statements¹¹² are representative of standard responses to a licensing offer made during reexamination:

- "The prior art cited in these reexamination proceedings has led me to question whether or not your patents will emerge from the reexamination procedure with claims that will cover what my client is doing. Therefore, I have advised my client not to accept your offer . . . at this time. When your patents emerge from reexamination, my client would be glad to reconsider your offer."
- "Given that the two U.S. patents at issue . . . are currently the subject of reexamination proceedings . . . we are hesitant to enter into a license agreement . . ."

¹⁰⁹ *Patlex II*, 771 F.2d 480, 485 (Fed. Cir. 1985).

¹¹⁰ *In re Burkner*, 3 U.S.P.Q.2d (BNA) 1630, at 1633 (Comm'r. Pat. 1987).

¹¹¹ See Handal, *supra* note 19, at 259 ("[I]t would appear that there is a substantial possibility of abuse of the reexamination process, especially in connection with licensing.").

¹¹² See Declaration of Lawrence B. Lockwood at 15-16, *Lockwood v. Sheppard, Mullin, Richter & Hampton, LLP*, No. 09-CV-5157 (C.D. Cal. Oct. 22, 2009).

- “I think that is [sic] would be prudent to wait until the re-examination process is completed.”

Again, the faith of *Patlex I* that patent holders “may recover damages from those who have infringed in the interim”¹¹³ was surely due, in part, to a rather conservative estimate of how long that “interim” would be. Moreover, the court was considering reexamination in the light of plaintiff’s constitutional challenges to the patent reexamination statutes; the plaintiff in *Patlex I* did not allege that the request for reexamination had been brought for the purpose of harassment. It was only in connection with this latter issue that the Federal Circuit would eventually concede that “unwarranted reexaminations can harass the patentee and waste the patent life.”¹¹⁴ Judge Newman observed that “a primary concern [of Congress] was the encumbrance on the patent during reexamination proceedings” and recognized the possibility that “the life of an issued patent be wasted and the patentee’s legitimate rights be abused by third party requests for reexamination.”¹¹⁵ Judge Rader—apparently disregarding the possibility that the PTO might be deceived by false evidence—has expressed the belief that “[t]he PTO has only undertaken reexaminations when genuine new questions of patentability warranted the process,”¹¹⁶ although in a later opinion he acknowledged that reexamination carries a “stigma or uncertainty regarding entitlement to the patent.”¹¹⁷

More recently, there has been some evidence that courts are beginning to note the effects that reexamination can have on a patent holder’s licensing program,¹¹⁸ and at least to admit the possibility that reexamination might waste the most valuable years of a patent’s life.¹¹⁹ The view of Judge Newman herself—author of the *Patlex* opinions—has matured into the recognition that “if [reexamination is] routinely available to delay the

¹¹³ *Patlex I*, 758 F.2d at 603.

¹¹⁴ *In re Recreative Techs. Corp.*, 83 F.3d 1394, 1397 (Fed. Cir. 1996).

¹¹⁵ *In re Lonardo*, 119 F.3d 960, 969 (Fed. Cir. 1997) (Newman, J., dissenting).

¹¹⁶ *In re Portola Packaging, Inc.*, 122 F.3d 1473, 1475-76 (Fed. Cir. 1997) (Rader, J., dissenting from denial of reh’g en banc).

¹¹⁷ *Bruning v. Hirose*, 161 F.3d 681, 685 (Fed. Cir. 1998).

¹¹⁸ See *Implicit Networks, Inc. v. Advanced Micro Devices, Inc.*, No. C08-184JLR, 2009 U.S. Dist. LEXIS 14467, at *10 (W.D. Wash. Feb. 9, 2009) (“[A]ny reticence on the part of a prospective licensee is caused by the reexamination procedure itself . . .”).

¹¹⁹ See *Perricone v. Unimed Nutritional Servs., Inc.*, No. 3:01CV512(CFD), 2002 U.S. Dist. LEXIS 17613, at *9 (D. Conn. July 18, 2002) (granting a motion to stay in part because “the patented invention at issue does not appear to be a short-lived technology, such as electronics or software, such that a stay of this case will permit the defendant to infringe upon the patented invention for the life of that invention”).

judicial resolution of disputes, the procedure is subject to inequity, if not manipulation and abuse, through the delays that are inherent in PTO activity.”¹²⁰

The emerging consensus is that the very existence of reexamination proceedings does indeed have a harmful effect¹²¹ on patent holders, particularly unjust when the proceeding is instituted through inequitable conduct and without cause. We must now turn our attention to the threshold standard designed to prevent unwarranted reexaminations from occurring in the first place.

III. THE REEXAMINATION PROCESS

A. *The Vulnerability of the SNQ Standard*

The reexamination statutes Congress passed into law in 1980 provided that requests for reexamination must raise a “substantial new question of patentability” (hereinafter “SNQ”), a threshold requirement intended to “protect patentees from having to respond to, or participate in unjustified reexaminations,”¹²² e.g., those “brought for harassment or spite.”¹²³ Thus, while any person¹²⁴ at any time may request reexamination of a patent based upon prior art “patents [and] printed publications,”¹²⁵ the reexamination will only be granted if the PTO determines that it raises an SNQ.¹²⁶ One competing bill under consideration at the time had included the additional requirement

¹²⁰ *Fresenius USA, Inc. v. Baxter Int’l, Inc.*, 582 F.3d 1288, 1305 (Fed. Cir. 2009) (Newman, J., concurring). *But see Photoflex Prods., Inc. v. Circa 3 LLC*, No. C 04-03715 JSW, 2006 U.S. Dist. LEXIS 37743, at *5 (N.D. Cal. May 24, 2006) (“The delay inherent to the reexamination does not constitute, by itself, undue prejudice.”).

¹²¹ Recall the holding of *Dubilier* and consider it with reference to the reexamination context: “[A] patent which does not carry with it the limited monopoly referred to in the Constitution is in reality not a patent at all. The only value that a patent has is the right that it extends to the patentee to exclude all others from making, using, or selling the invention for a certain period of years. A patent that is dedicated to the public is virtually the same as a patent that has expired.” *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 202 (1933).

¹²² H.R. Rep. No. 96-1307, pt. 1, at 7 (1980), *reprinted in* 1980 U.S.C.C.A.N. at 6466.

¹²³ *Patlex II*, 771 F.2d 480, 483 (Fed. Cir. 1985).

¹²⁴ 35 U.S.C. §§ 301, 302 (2010). Whereas anyone may file a request for an ex parte reexamination, and according to 37 C.F.R. § 1.510(b) may even do so anonymously, there are limits placed on those requesting inter partes reexamination. Specifically, 37 C.F.R. § 1.913 prohibits “the patent owner or its privies” from filing the request.

¹²⁵ 35 U.S.C. § 303(a) (2010).

¹²⁶ *Id.*

that the requester present a “material reason” for the reexamination.¹²⁷ PTO examiners recognized the “potential for harassment of patentees by multiple reexamination requests,” but it was thought that “[s]ince these are screened and also limited to new and substantial issues, the probability of harassment is minimized, particularly where a ‘material reason’ is *also* required.”¹²⁸ Unfortunately, the requirement for a “material reason” was not present in the bill that ultimately became law.

The period during which the PTO determines whether the request raises an SNQ is the crucial stage of the reexamination process,¹²⁹ since the decision to grant a request for reexamination generally cannot be vacated¹³⁰ and once reexamination is initiated, in the words of one practitioner, it “take[s] on a life of its own.”¹³¹ Yet the PTO has, by

¹²⁷ Donald G. Daus, *Reexamination: An Opportunity to Serve the Public*, 62 J. Pat. Off. Soc’y 182 (1980); *see also* Conger, *supra* note 53, at 535 (noting that this “requirement . . . was allegedly to reduce the possibility of the use of reexamination as a tool for harassment”).

¹²⁸ *See* Daus, *supra* note 126, at 183 (emphasis added).

¹²⁹ *See In re Freeman*, 30 F.3d 1459, 1468 (Fed. Cir. 1994) (“[T]he substantial new question of patentability is the focal point of every reexamination.”).

¹³⁰ A narrow exception to this rule is the possibility of filing a petition to vacate under 37 C.F.R. § 1.181, when the patent owner believes the PTO has exceeded its statutory authority in ordering reexamination. Third-party requesters are given the right to file an opposition to such petitions within two weeks of filing. *See generally*, U.S. Pat. & Trademark Office, U.S. Dep’t of Commerce, Manual of Patent Examining Procedure § 2246 (8th ed., rev. 7, July 2008) [hereinafter MPEP]. “Appropriate circumstances” for a petition to vacate include situations in which “the reexamination order is based wholly on the same question of patentability raised by the prior art previously considered in an earlier concluded examination of the patent by the Office” *Id.*, at 2200-64. Given, however, the uncertainty regarding what constitutes an “old” versus a “new” question, which will be discussed later in this section, it is hardly to be believed that petitions made on this ground could often be successful in the current state of the law. A second exception to this rule may be a petition to vacate under 37 C.F.R. § 1.182, where the patent holder can establish that the *serial* filing of reexamination requests is a form of harassment—for example, when the requester sends prior art to the PTO in piecemeal fashion, in multiple requests, and over time, rather than all at once in a single request, for the purpose of prolonging the period in which the patent remains in reexamination. I am grateful to Stephen G. Kunin for bringing this second possible exception to my attention.

¹³¹ *See* Sterne et al., *supra* note 58, at 25; *see also* Magas, *supra* note 29, at 173 (noting that even “if independent inventors succeed in winning a large judgment in court, the large companies at the other end of that verdict” may try to instigate reexamination). Regarding this latter possibility, consider the following use of reexamination as illustrative: Immersion Corp. had been awarded \$82 million in damages for infringement of two patents it asserted against Sony. Yet Sony began filing requests for inter partes reexamination of the patents on the very day its post-verdict motions were denied. Accordingly, Immersion petitioned the PTO to dismiss or suspend the reexaminations. In its decision, the PTO stated that although “there is no provision in the statute or rules for this type of petition, which asks for the extraordinary relief of terminating or

statute, only three months to review the prior art submitted by a third party requester in order to determine whether it raises an SNQ.¹³² In view of the lengthy pendencies of entire reexamination proceedings, one can easily surmise how cursory¹³³ the PTO review must inevitably be at this stage. Nevertheless, the patent owner is not permitted to comment on the content of the request until *after* the decision as to the SNQ has been reached,¹³⁴ thus depriving him of the opportunity to rebut any falsehoods if discovered.¹³⁵

suspending two inter partes reexaminations, the Office will consider the petitions in view of the unusual circumstances.” *In re Mark R. Tremblay*, Control Nos. 95/000,093 and 95/000,094, at 1 (Aug. 23, 2005). It denied the petitions because the scope of the reexaminations was wider than the then-pending appeal to the Federal Circuit, as Sony had requested reexamination of both the litigated and unlitigated patent claims. In response, Immersion statutorily disclaimed the two unlitigated claims and renewed its petitions to suspend the proceedings. This time, the PTO granted the petitions to suspend the reexaminations, noting that “Immersion’s elimination of claim 1 in each proceeding aligns the claims and issues when comparing the two reexamination proceedings to the appeal now pending at the Federal Circuit,” and finding good cause based on the “strong possibility that the Federal Circuit’s [forthcoming] decision will estop the Office from issuing any decision at all.” *Sony Computer Entm’t Am., Inc. v. Dudas*, No. 05-1447, 2006 U.S. Dist. LEXIS 36856, at *22 (E.D. Va. May 22, 2006) (quoting *In re Mark R. Tremblay*). The patent owner was thus forced to relinquish part of its property rights (namely, the unlitigated claims) in order to stop reexamination proceedings that would have given Sony a third bite at the apple and further delayed resolution of the dispute. Subsequently, Sony agreed to pay Immersion \$150.3 million, which included the damages award with interest, and future licensing fees. See Antone Gonsalves, *Sony Agrees to Pay \$150.3 Million in PlayStation Patent Suit*, Info. Wk., Mar. 2, 2007.

¹³² See 35 U.S.C. § 303(a) (2010); see also 37 C.F.R. § 1.515(a) (2010).

¹³³ One indication of this is provided in the MPEP, which suggests that far less time than the statutory maximum of three months is actually used by examiners in determining whether to grant or deny the request. See MPEP, *supra* note 129, § 2241, at 57 (urging that examiners “should take up a request for decision *about 6 weeks after* the request was filed,” and that “[t]he decision should be mailed within 10 weeks of the filing date of the request”) (emphasis added). This would reduce the real time for decision to perhaps four weeks.

¹³⁴ See 37 C.F.R. § 1.530(a) (2010). Recently, the PTO sought public comment on its proposal to allow patent-holders to reply to a request for reexamination before the examiner’s decision on the request: “Such a patent owner reply would address patentee concerns as to their current inability to address a request prior to an order. Further, the patent owner’s input could improve the information/evidence and understanding of the issues before the examiner deciding the request. That input should serve the purpose of reducing improper/unnecessary orders . . . [and] should enable the Office to be better able to weed out those requests that do not raise a substantial question of patentability, prior to instituting a full-blown proceeding.” Revisions and Technical Corrections Affecting Requirements for Ex Parte and Inter Partes Reexaminations, 71 Fed. Reg. 16072, 16073 (Mar. 30, 2006). The PTO’s admission that “requests that do not raise a substantial question of patentability” might become “full-blown proceedings” through “improper/unnecessary orders” that initiate reexamination proceedings is telling, and suggestive of its concern with the abuse explored in this article. The PTO subsequently declined, however, to adopt the rule it proposed.

Moreover, a decision ordering reexamination is not appealable by the patent owner,¹³⁶ whereas the third party requester is afforded the chance to petition for review of a PTO decision denying the request.¹³⁷

If a requester can persuade the PTO to initiate reexamination, he will have succeeded at the very least in raising doubts throughout the marketplace as to the patent's validity, and more importantly, the requester will usually have secured a solid basis for obtaining a stay of any infringement litigation filed against him.¹³⁸ Nor can the requester discount the possibility that the PTO may invalidate the patent on unexpected grounds; for example, by finding new prior art on its own initiative or by combining its art with that submitted with the request.¹³⁹ Judge Nies, in a concurrence joined by Judges Bissell

¹³⁵ Cf. Conger, *supra* note 53, at 554 (“[T]he inability to respond at this point in the reexamination procedure seriously diminishes the patentee’s ability to escape reexamination unscathed, for it gives an adverse party the opportunity to present uncontroverted arguments in support of reexamination and invalidity at the very onset.”).

¹³⁶ See *In re Etter*, 756 F.2d 852, 857 (Fed. Cir. 1985) (“[D]etermination of whether a ‘substantial new question of patentability’ exists, and therefore whether reexamination may be had, is discretionary with the Commissioner, and, as § 303 provides, that determination is final, i.e., not subject to appeal.”); *but see Heintz v. Godici*, 143 F. Supp. 2d 593, 596-97 (E.D. Va. 2001) (opining that “the statement in *Etter* concerning 303(c) was necessarily dictum” and that the “plain meaning [of 303(c)] . . . only bars judicial review of PTO decisions to deny reexamination”). The *Heintz* court then proceeded to analyze the decision to grant reexamination as it pertained to the final agency action rule of the Administrative Procedure Act or any exceptions thereto, finding that “the PTO’s decision to allow reexamination of a patent is not ‘final agency action’ and, therefore, is not subject to judicial review at this time” and that “no exception to that rule counsels otherwise in this case.” *Id.* at 597, 604.

¹³⁷ Although 35 U.S.C. § 303(c) states that “[a] determination by the Director . . . that no substantial new question of patentability has been raised will be final and nonappealable,” 37 C.F.R. § 1.515(c) provides that “[t]he requester may seek review by a petition to the Director under § 1.181 within one month of the mailing date of the examiner’s determination refusing *ex parte* reexamination.”

¹³⁸ See Rosenbloom, *supra* note 77, at 2 (finding that motions to stay litigation pending the outcome of reexamination are being granted more than 60% of the time overall); see also Smith, *supra* note 79, at 1 (finding that certain districts are granting such motions about 85% of the time).

¹³⁹ When deciding whether to grant or deny a request, “[i]f the examiner believes that additional prior art patents and publications can be readily obtained by searching to supply any deficiencies in the prior art cited in the request, the examiner can perform such an additional search.” MPEP, *supra* note 129, § 2244, at 2200-61. Note that this directive does not refer to prior art with which the examiner is *already* familiar, but art which he must make a new effort to find. Thus, so-called “deficient” prior art submitted by the requester—which would otherwise result in a denial of the request—may be subject to combination with prior art found at the initiative of examiners. It can be wondered to what extent this directive may make an examiner

and Smith, saw early that “in a very real sense, once reexamination is ordered (an unreviewable decision), the patent holder ‘starts over’ under the PTO view on all § 102 and § 103 issues with respect to all claims, amended or unamended, whether or not related to the new question.”¹⁴⁰ And it has been observed that “[r]eexamination is . . . tantamount to a patent challenger collaborating with the PTO to invalidate the patent.”¹⁴¹ Therefore, third parties have strong incentives to take liberties with their reexamination requests in order to ensure that the PTO determines that an SNQ has been raised and thus orders the reexamination to proceed.¹⁴² Indeed, almost all of the allegations of misconduct explored herein relate to information that was misrepresented to, or withheld from, the PTO in the third party’s request.¹⁴³

A member of the Assistant Commissioner’s staff admitted soon after the reexamination statutes became law that “[t]he meaning and scope of the term ‘a substantial new question of patentability’ is not defined in the statute and must be

the ally of the requester, and whether it serves to tilt the balance too far in favor of granting requests. Once a request is granted and reexamination is under way, examiners are instructed to search for additional prior art. *See* MPEP, *supra* note 129, § 2256, at 2200-87 (“[T]he examiner must also consider patents and printed publications . . . discovered by the examiner in searching . . .”).

¹⁴⁰ *Etter*, 756 F.2d at 863, 865 (Nies, Smith, & Bissell, JJ., concurring) (“[T]he [PTO] Commissioner . . . should not merely allow reexamination to proceed in any direction at the discretion of an examiner. Clearly, reexamination was not designed to allow the PTO simply to reconsider and second guess what it has already done.”). Reexamination permits the PTO to “start over” with respect to a few other issues as well. For example, a divided Federal Circuit panel in *Lonardo* held that the PTO is authorized to consider questions of “double patenting” during reexamination, engaging in what Janis has called “a considerable feat of statutory interpretation” in order to reach this conclusion. Janis, *supra* note 61, at 53 n.229.

¹⁴¹ Allen M. Leung, *Legal Judo: Strategic Applications of Reexamination Versus an Aggressive Adversary (Part I)*, 84 J. Pat. & Trademark Off. Soc’y 471, 486 (2002).

¹⁴² *Cf.* Speranza and Goldman, *supra* note 58, at 302 (“Another advantage of reexamination to the patent challenger is the opportunity, as the initiator of the reexamination request, to have the first word regarding the scope of claims and applicability of prior art.”).

¹⁴³ In *ex parte* reexamination proceedings, the third-party requester’s participation is limited to the submission of his request; thus, it is not surprising that the request would be the site of misconduct. *See* 37 C.F.R. § 1.550 (2010). However, if and when a patent owner decides to file an initial statement under 37 C.F.R. § 1.530 after the reexamination has been ordered but before the PTO has issued a first office action, the requester is afforded a chance to reply. *See* 37 C.F.R. § 1.550(g). The patent owner’s statement is rarely used and thus most requesters’ participation ends with the submission of the request. *See* Sterne et al., *supra* note 58, at 41; *see also* 37 C.F.R. § 1.535 (2010). This does not, however, prevent requesters from filing requests for reexamination *ad infinitum*, as will be discussed.

developed to some extent on a case-by-case basis.”¹⁴⁴ However, with the number of reexamination requests being granted reaching close to 94%,¹⁴⁵ the SNQ threshold was soon seen by scholars and members of the patent bar as too nebulous and vulnerable to abuse to achieve its stated objective in practice. It was observed that although “the substantial new question requirement makes sense conceptually, experience has demonstrated that the requirement operates suboptimally as an anti-harassment measure . . . is too amorphous and, as a result, is applied overinclusively.”¹⁴⁶ One commentator has suggested that the SNQ threshold does so little to weed out “non-meritorious requests” that “today [these] are almost automatically granted.”¹⁴⁷ Another has simply called the requirement “pointless.”¹⁴⁸ It has even been speculated by one patent attorney that “since the PTO arguably stands to gain if a positive determination [i.e., a determination to grant the request] is made because otherwise it would not be able to charge a large reexamination fee, such an initial burden may be merely a formality in practice.”¹⁴⁹ Some of the most recent criticism of the SNQ threshold has arisen as part of the current debate over patent reform; Senator Jon Kyl voiced his reservations concerning the retention of the SNQ threshold in the proposed “post-grant opposition” procedure now

¹⁴⁴ R. Franklin Burnett, *The “Nuts and Bolts” of Patent Reexamination*, 9 Am. Intell. Prop. L. Ass’n Q.J. 183, 192 (1981); see also Conger, *supra* note 53, at 537 n.74 (“[N]either the statute nor its legislative history clarify the meaning of the phrase.”).

¹⁴⁵ See USPTO Performance and Accountability Report for Fiscal Year 2009, *supra* note 38, at 1244. This rate has been fairly stable historically, as the PTO’s statistics reveal that 92% of all requests have been granted since 1981. See *Ex Parte Reexamination Filing Data*, *supra* note 83.

¹⁴⁶ See Janis, *supra* note 61, at 47.

¹⁴⁷ Maghame, *supra* note 19.

¹⁴⁸ Harold C. Wegner, *Patent Harmonization*, § 2182 (1993).

¹⁴⁹ Qin Shi, *Reexamination, Opposition, or Litigation? Legislative Efforts to Create a Post-Grant Patent Quality Control System*, 31 AIPLA Q.J. 433, 449 n.61 (2003). The same argument appeared at the district level in *Patlex*, where the plaintiff argued that that the reexamination fee structure violated the Due Process Clause “in much the same manner as when a portion of fines assessed by a court is funneled back to the judge as compensation” and that “the fee structure offers PTO examiners ‘a possible temptation . . . to forget the burden of proof required’ for ordering reexamination.” *Patlex Corp. v. Mossinghoff*, 585 F. Supp. 713, 727 (E.D. Pa. 1983), *vacated in part*, 758 F.2d 594 (Fed. Cir. 1985), *remanded to* 771 F.2d 480 (Fed. Cir. 1985). Notwithstanding these arguments, it is probably more likely that the costs of reexamination borne by the PTO significantly exceed the current fee; under 37 C.F.R. § 1.20(c), the current fee for requesting *ex parte* reexamination is \$2,520.00, and the fee for requesting *inter partes* reexamination is \$8,800.00. As I argue below, the high grant rate has more to do with a combination of factors: a possible institutional bias toward revisiting patent validity, prompted by criticism of the Office; inadequate guidance from the Federal Circuit regarding the bounds of the SNQ; and a tendency by some requesters to stretch and, in a few cases, to misrepresent, the pertinence of prior art.

under consideration: “One fundamental flaw in the House post-grant language is that it keeps a very low threshold for initiating ex parte reexam proceedings . . . This low threshold not only overwhelms the PTO with cases, it is also fundamentally unfair to patent owners”¹⁵⁰

During the years when reexamination initially came into use, the PTO’s stated policy was to err in favor of granting requests for reexamination when making its determination as to the presence of an SNQ.¹⁵¹ The Manual of Patent Examining Procedure (hereinafter “MPEP”) directed PTO examiners that “any question as to whether a substantial new question of patentability exists should be resolved in favor of granting the request for reexamination.”¹⁵² This policy was explicitly overturned by the Federal Circuit, which stated that “when Congress enacted 35 U.S.C. § 303 for the purpose of protecting the patentee, it could not have intended an implementation that would negate this protection. We can not [sic] endorse such a diversion of the statutory purpose.”¹⁵³ The PTO subsequently deleted the policy from the MPEP.¹⁵⁴

Nevertheless, one scholar finds that “the ruling seems to have had little practical effect,” since “[e]xaminers still routinely rubber-stamp requests for reexamination and are authorized merely to parrot back the requester’s language as support for the proposition that a substantial new question of patentability exists.”¹⁵⁵ While statistics for the year immediately following *Patlex II* could not be located, the fact that the PTO was granting 84% of requests *prior* to the ruling,¹⁵⁶ coupled with the reality that this rate has only *increased* in the years hence, suggests the ruling has had no practical effect at all on the PTO’s application of the SNQ standard.

Indeed, although the language concerning the PTO’s “rule of doubt” was removed from the MPEP, subsequent editions have persisted to this day in advising that “in a simple case the examiner may adopt the reasons provided by the requester in the

¹⁵⁰ See Remarks of Senator Jon Kyl, *supra* note 36.

¹⁵¹ Janis, *supra* note 61, at 48 n.207.

¹⁵² U.S. Pat. & Trademark Office, U.S. Dep’t of Commerce, Manual of Patent Examining Procedure § 2244, at 582 (4th ed., rev. 7, July 1981) (containing the earliest appearance of this language).

¹⁵³ *Patlex II*, 771 F.2d 480, 487 (Fed. Cir. 1985).

¹⁵⁴ See U.S. Pat. & Trademark Office, U.S. Dep’t of Commerce, Manual of Patent Examining Procedure § 2244, at 2200-31 (5th ed., rev. 4, Oct. 1986) (containing the first deletion of the language, which was replaced by a quotation from the *Patlex II* decision).

¹⁵⁵ Janis, *supra* note 61, at 48.

¹⁵⁶ See Gregor N. Neff, *Patent Reexamination—Valuable, but Flawed: Recommendations for Change*, 68 J. Pat. & Trademark Off. Soc’y 575, 593 (1986).

discussion of the substantial new question of patentability,”¹⁵⁷ lending credence to those who opine that “the PTO has a tendency to accept uncritically all facts set forth in the request as true.”¹⁵⁸ Veteran patent practitioners have observed that the PTO “often rejects all of the claims in the first OA [office action] and puts the burden on the patent owner to prove the patentability of the claims even if the claims have been subject to extensive prior art attack in prior court actions.”¹⁵⁹ An informal study of 5000 reexamination proceedings found that 83% of the time, the PTO’s first ruling on the merits was a rejection of the patent’s claims.¹⁶⁰

So-called “old art,” i.e., “prior art previously considered by the PTO in relation to the same or broader claims,”¹⁶¹ was inadmissible¹⁶² in reexamination proceedings until 2002, when Congress changed the law to expand the range of prior art that might raise an SNQ. 35 U.S.C. § 303(a) was amended explicitly to “overturn[] the holding of *In re Portola Packaging Inc.*, a 1997 Federal court decision imposing an overly-strict limit that reach[e]d beyond the text of the Patent Act.”¹⁶³ Instead, Congress explained, “the appropriate test to determine whether a ‘substantial new question of patentability’ exists should not merely look at the number of references or whether they were previously considered or cited but their combination in the appropriate context of a new light as it bears on the question of the validity of the patent,” noting however that “this bill is not a license to abuse patentees and waste the life of the patent.”¹⁶⁴ Congress explicitly

¹⁵⁷ MPEP, *supra* note 129, § 2246, at 2200-62.

¹⁵⁸ Janis, *supra* note 61, at 48 n.209. Further, Janis believes that “anecdotal evidence suggests that the practice extends beyond simple cases, whatever ‘simple’ might mean.” *Id.*

¹⁵⁹ Sterne et al., *supra* note 58, at 25; *see also Network Appliance, Inc. v. Sun Microsystems, Inc.*, No. C-07-06053, 2008 U.S. Dist. LEXIS 107840, at *5-6 (N.D. Cal. Nov. 3, 2008) (“[T]he PTO almost always grants initial rejections . . . against all claims. Thus, the Court gets only limited guidance from initial actions as to the ultimate outcome. Indeed, denials, which are the exception, may shed more light than grants, which are the rule.”) (citation omitted) (discussing an early draft of Sterne et al.).

¹⁶⁰ *See* Dennis Crouch, *Microsoft v. i4i: Relevance of the Pending Reexamination*, Patently-O, Aug. 25, 2009, <http://www.patentlyo.com/patent/2009/08/microsoft-v-i4i-relevance-of-the-pending-reexamination.html>.

¹⁶¹ *In re Portola Packaging*, 110 F.3d 786, 791 (Fed. Cir. 1997).

¹⁶² *See* Mark D. Janis, *Inter Partes Patent Reexamination*, 10 Fordham Intell. Prop. Media & Ent. L.J. 481, 488 n.29 (2000). Janis has, however, noted that the “PTO . . . staunchly resisted the approach laid out” in *Portola* and the cases that followed it, “reading them extremely narrowly.” *Id.* This perhaps reflects the PTO’s institutional resistance to anything that might narrow its latitude for correcting erroneously granted patents.

¹⁶³ H.R. Rep. No. 107-120, at 2 (2002).

¹⁶⁴ *Id.* at 3.

distinguished “the safety-valve of a ‘substantial new question of patentability’ standard” from “merely ‘any sort of question’” and exhorted the courts to “judiciously interpret the ‘substantial new question’ standard to prevent cases of abusive tactics and harassment of patentees through reexamination.”¹⁶⁵ However, the most recent case to reevaluate the scope of the SNQ threshold, *In re Swanson*, provided scant guidance as to what constitutes “new light” on old art, as distinguished from repetitive submission of old art.¹⁶⁶

Because third parties know that the USPTO routinely grants reexamination for approximately 94% of the requests it receives if they at least appear to comply with the requirements for such requests, there is little reason to imagine that the process is safe from fraud and manipulation. Nor can it be naively assumed that the 5-6% of requests that are denied constitute the bulk of the “bad apples.” It is possible that many, if not most, of those requests are denied for merely technical reasons. The PTO’s form PTOL-2077 “Notice of Failure to Comply with Ex Parte Reexamination Request Filing Requirements (37 CFR 1.510(c))” lists a few possible reasons, including: failure to pay the reexamination filing fee; failure to identify the patent, or the specific claims thereof, for which reexamination is requested; failure to properly cite the patents and printed publications that are presented to raise an SNQ; failure to include a statement pointing out each SNQ and explaining the relevance of the prior art; submitting illegible copies of the prior art; and failure to certify that the requester has served a copy of the request on the patent owner.¹⁶⁷ The PTO typically gives the requester 30 days to correct these oversights, after which the request is presumably rejected. However, it is uncertain whether (and what proportion of) requests are denied due to formal inadequacies or because the PTO actually finds that they do not raise an SNQ, because the PTO does not

¹⁶⁵ *Id.* at 3.

¹⁶⁶ *In re Swanson*, 540 F.3d 1368, 1380 (Fed. Cir. 2008) (noting that “the 2002 amendment removes the focus of the new question inquiry from whether the reference was previously considered, and returns it to whether the particular question of patentability presented . . . was previously evaluated by the PTO”) (citing H.R. Rep. No. 107-120, at 3). One sign of the court’s concern with this issue is that, during oral arguments, Judge Alan D. Lourie asked counsel for the PTO: “When is there *not* a substantial new question of patentability? . . . If a reference is cited which was never cited before, obviously there’s a question of new question of patentability. *Now*, if the reference was previously cited, there’s *still* a new question of patentability. When is there *not* a new question of patentability under the law today?” PTO Associate Solicitor Mary Kelly replied: “I would say, when the reference was cited for substantially the same reason that’s being raised by the Director or by a third party as it was in the original prosecution.” Digital Recording of Oral Arguments, *In re Swanson* (emphasis added), available at <http://oralarguments.cafc.uscourts.gov/Audiomp3/2007-1534.mp3>. Judge Lourie’s statement regarding newly cited references should not, of course, be taken to imply his belief that every new reference *would*, as such, raise a substantial new question of patentability, only that it *could* raise it.

¹⁶⁷ See MPEP, *supra* note 129, § 2227, at 2200-43-44 (referring to use of Form PTOL-2077); see also 37 C.F.R. §1.510 (2010).

break down its statistics by reason for denial.

The manner in which the PTO has applied the SNQ threshold¹⁶⁸ is deficient in several respects, prompting one practitioner to conclude that the materiality standard adopted by the PTO is “de minimus [sic], enabling virtually all cited references to establish” the existence of an SNQ.¹⁶⁹ Unfortunately, this has had the effect of encouraging third parties to take advantage of the reexamination process in a manner not wholly consistent with their duty of candor to the PTO.¹⁷⁰ For instance, although the Federal Circuit has held that prior art merely “cumulative with any old art” is “not sufficient to create” an SNQ,¹⁷¹ nowhere does the MPEP direct examiners to review the prior art of record to determine *whether* the prior art cited by the requester is merely cumulative. Instead, the Office has evidently relied on requesters to comply with its suggestion that “the request *should* point out how any questions of patentability raised are substantially different from those raised in the earlier prosecution of the patent before the Office or in litigation before the federal courts,”¹⁷² though it is uncertain how often this has actually been done. Only in the most recent revision of the MPEP does the suggestion seem to have become a *requirement*, now stating that “the request *must* point

¹⁶⁸ The extremely high rate at which the PTO is granting requests for reexamination is troubling and suggests that institutional bias toward reviewing issued patents may be one factor in its decisions. This inclination, if real, may be the effect of pressure on the Office from press stories critical of a few reputedly questionable patents issued in recent years. The results of this bias, however it may have been effectuated, remind us disquietingly of the treatment of patents during a certain period within the 8th Circuit—suggesting that many patents are being subjected to a lengthy scrutiny at the PTO which they do not merit. As Judge Arthur J. Gajarsa has recalled: “I can remember the days in pre-1982. If you had a patent case which arose in the 8th Circuit, and you were the patentee, you may as well just give it up, because the 8th Circuit did not find a valid patent from 1917 to 1982. Not one patent was valid. And I’m sure if Shockley had come up with the transistor patent at that point and tried it in the 8th Circuit, his patent would have been invalid too.” Judge Arthur J. Gajarsa, Remarks at The Fifth Annual Hot Topics in Intellectual Property Law Symposium at Duke University Law School (February 17, 2006), available at <http://realserver.law.duke.edu/ramgen/spring06/students/02172006key.rm>.

¹⁶⁹ Conger, *supra* note 53, at 537 n.74.

¹⁷⁰ See 37 C.F.R. §§ 1.555, 10.23 (2010); see also *Ball Corp. v. Xidex Corp.*, 967 F.2d 1440, 1447 (“We hold that the duty of candor and good faith in the reexamination proceeding applies to both the requester and the patent defender, as well as to their respective attorneys and agents.”).

¹⁷¹ *In re DBC*, 545 F.3d 1373, 1382 (Fed. Cir. 2008) (citing *In re Hiniker Co.*, 150 F.3d 1362, 1367 (Fed. Cir. 1998)).

¹⁷² MPEP, *supra* note 151, § 2216, at 586 (emphasis added). The suggestion has existed since the first revision of the MPEP to reflect the passage of reexamination procedures into law. *Id.*

out”¹⁷³ the differences from previous questions of patentability. Of course, there is reason to doubt that this requirement is being regularly complied with in practice.

The MPEP does mention the possibility that “where the examiner finds the additional (newly provided) prior art patents or printed publications are merely cumulative,”¹⁷⁴ an SNQ may not be raised. However, examiners are never explicitly directed to make this finding by, for instance, reviewing the file history of the patent, rereading the previously considered prior art, and comparing it to the prior art proffered by the third party requester. Surely these things would be prerequisites to a finding regarding whether the prior art submitted by a third party requester is merely cumulative. Yet in view of the significant disjunction between the statutory three-month determination period, and the several-years-long pendencies of entire reexamination proceedings, it can easily be guessed whether examiners are presently capable of reviewing all the prior art of record before they make their determination as to whether the request raises an SNQ. The extremely high rate at which requests are granted—to say nothing of specific allegations that requesters are misrepresenting prior art that is in fact merely cumulative¹⁷⁵—suggests that the PTO is not adequately weeding out requests based on cumulative prior art.¹⁷⁶ Further admonishment from the Federal Circuit, along the lines of that proffered when the court disapproved the PTO’s “rule of doubt” in *Patlex*, may be necessary before the PTO will take adequate measures to screen for cumulative prior art.

Likewise, the Federal Circuit has stated that when “old art” is submitted by the requester, “the PTO should evaluate the context in which the reference was previously

¹⁷³ MPEP, *supra* note 129, § 2216, at 2200-27 (emphasis added). The revision also added the following new language: “It is not sufficient that a request for reexamination merely proposes one or more rejections of a patent claim or claims as a basis for reexamination. It must first be *demonstrated* that a patent or printed publication that is relied upon in a proposed rejection presents a new, non-cumulative technological teaching that was not previously considered and discussed on the record during the prosecution of the application that resulted in the patent for which reexamination is requested, and during the prosecution of any other prior proceeding involving the patent for which reexamination is requested.” *Id.* (emphasis added). The new language is a step in the right direction, but it remains to be seen whether it will have any impact, and whether, given time constraints, examiners are in practice sufficiently empowered by the MPEP to enforce it.

¹⁷⁴ *Id.* at 2200-57.

¹⁷⁵ See Complaint at 19-22, *Lockwood v. Sheppard, Mullin, Richter & Hampton, LLP*, No. 09-CV-5157 (C.D. Cal. July 15, 2009) (alleging that “defendants knew or should have known that the references they submitted were merely cumulative to the closest prior art of record”).

¹⁷⁶ Cf. 71 Fed. Reg., *supra* note 133. The PTO’s proposal to help “the Office to be better able to weed out those requests that do not raise a substantial question of patentability, prior to instituting a full-blown proceeding,” is an implicit admission that the PTO is having difficulty in preventing full-blown proceedings from being instituted, despite the fact that the requests did not in fact raise an SNQ.

considered and the scope of the prior consideration and determine whether the reference is now being considered for a substantially different purpose.”¹⁷⁷ Surely all this will necessarily “require an analysis of the record of the prior proceedings to determine if and how the examiner used the reference in making his initial decisions.”¹⁷⁸ Yet the MPEP directs examiners to do no more than “check the patent’s file history to ascertain whether the art that will provide the basis for the rejection was previously *cited/considered* in an earlier concluded Office examination of the patent”¹⁷⁹—a task that presumably requires no more than that the examiner *glance* at the face of the patent or previous reexamination certificate. The MPEP then explains that an SNQ “may be based solely on old art where the old art is being presented/viewed in a new light,”¹⁸⁰ giving examiners no direction whatsoever as to what such ‘new light’ may mean. One could have wished that the Federal Circuit had done more in *In re Swanson* to provide such guidance itself. But with respect to finding an SNQ based on old art, the PTO must bear some blame for having adopted a practice similar to the “rule of doubt” that was found to be a “diversion of statutory purpose.”¹⁸¹ Congress explicitly distinguished the SNQ, after all, from “merely any sort of question.”¹⁸²

In sum, there are strong reasons to suspect that the SNQ standard is not functioning to fulfill its intended purpose of preventing unwarranted reexaminations. The PTO’s application of that standard is disquieting and partly to blame¹⁸³ for the unwarranted reexaminations that do occur,¹⁸⁴ but it is also understandable in view of the PTO’s notoriously strained budget. And there are signs that the Office is both aware of and interested in doing what it can to address the problem.¹⁸⁵ Likewise, the Federal

¹⁷⁷ *In re Swanson*, 540 F.3d 1368, 1380 (Fed. Cir. 2008).

¹⁷⁸ *Swanson*, 540 F.3d at 1380-81.

¹⁷⁹ MPEP, *supra* note 129, § 2258, at 2200-58, 2200-59 (emphasis added).

¹⁸⁰ *Id.* at 2200-59.

¹⁸¹ *Patlex II*, 771 F.2d 480, 487 (Fed. Cir. 1985).

¹⁸² H.R. Rep. No. 107-120, at 2 (2002).

¹⁸³ During a talk he gave while Deputy General Counsel for Intellectual Property Law and Solicitor at the PTO, John Whealan asked the audience: “How many of you have ever filed a reexam? Are you scared to file reexam? Yeah, you should’ve been. We weren’t doing as good a job as we should’ve been.” John Whealan, Lecture at Case Western Reserve University School of Law: The Role of the Solicitor’s Office in Shaping Patent Policy (Feb. 1, 2006), *available at* <http://www.youtube.com/watch?v=769AKS2r0Is>.

¹⁸⁴ See Logan, *supra* note 28, at 997 (recommending that the SNQ standard “be rigorously enforced, and not just a ‘rubber-stamp’ approval”).

¹⁸⁵ See 71 Fed. Reg., *supra* note 133.

Circuit's interpretation to date has neither made the SNQ standard sufficiently meaningful,¹⁸⁶ nor given PTO examiners enough guidance to know when an SNQ is or is not raised. If future cases are brought which, like *Lockwood*, would require the plaintiff to prove "that the USPTO would not have granted reexamination but for [requester]'s misrepresentations" and thus "whether the prior art references, properly characterized, meet the standard for reexamination under the patent laws,"¹⁸⁷ these may force the Federal Circuit to confront what the SNQ standard means and what it does not. To begin with, courts struggling with this standard would benefit from revisiting the Congressional Record, where the SNQ was said to be equivalent to a "creditable case of invalidity."¹⁸⁸ This may serve to clear up confusion (whether willful or inadvertent) among practitioners who assert that a "'prima facie' case of unpatentability need not exist for there to be a substantial new question of patentability."¹⁸⁹

I now turn briefly to the burdens specific to the reexamination process, to give some notion of what patent holders must face when subjected to these proceedings unfairly.

B. Burdens of the Process

Since reexamination is required to be conducted with "special dispatch," a patent-holder is held to a higher standard than he would be during other PTO proceedings, and if he is unintentionally late in responding to a PTO office action during reexamination, he is at great risk that the proceeding will be terminated and his claims will be cancelled.¹⁹⁰

¹⁸⁶ See Oliver, *supra* note 50, at 1097 ("[T]he Federal Circuit has struggled throughout the 1990's to provide guidance regarding these issues.").

¹⁸⁷ *Lockwood v. Sheppard, Mullin, Richter & Hampton*, 93 Cal. Rptr. 3d 220, 228 (Ct. App. 2009).

¹⁸⁸ Statement of PTO Commissioner Sidney Diamond, *Industrial Innovation & Patent & Copyright Law Amendments: Hearings on H.R. 6933, 6934, 3806, & 214 Before the Subcomm. on Courts, Civil Liberties and the Administration of Justice of the H. Comm. on the Judiciary*, 96th Cong., 2d Sess. 581 (1980).

¹⁸⁹ Brief of O'Melveny & Myers LLP as Amicus Curiae Supporting Defendants-Appellees at 20, *Lockwood v. Sheppard, Mullin, Richter & Hampton, LLP*, No. 2010-1189 (Fed. Cir., docketed Feb. 17, 2010). The brief cites *Etter* for the proposition quoted above, but *Etter* merely says that the requester need not *resolve* the validity issue in order to raise the SNQ. See *In re Etter*, 756 F.2d 852, 857 n.5 (Fed. Cir. 1985).

¹⁹⁰ See *In re Katrapat*, 6 U.S.P.Q.2d, 1863, 1866-67 (Comm'r Pat. & Trademarks 1988) ("Had Congress intended to additionally permit revival of unintentionally terminated reexamination proceedings, it could have demonstrated such intent . . . but it did not do so [P]ermitting revival of unintentionally terminated reexamination proceedings . . . would be inconsistent with the statutory requirement for 'special dispatch' in the conduct of reexamination proceedings."); see also *In re Egbers*, 6 U.S.P.Q.2d 1869, 1871 (Comm'r Pat. & Trademarks

One scholar has noted that rules of reexamination “leave open the possibility that the patentee will be burdened by voluminous and/or complex documentary prior art advanced by the reexamination requester.”¹⁹¹ Moreover, by forcing the patent-holder to defend the validity of his patent, the requester forces him to make numerous statements about his claims which may later be used against him in court, for example in order “to rebut infringement claims through prosecution history estoppel.”¹⁹²

But the difficulties for patent holders who find themselves in reexamination are further amplified by several procedural differences between reexamination and district court adjudication of validity. First, the statutory presumption of validity that applies to a patent in court is cast aside in reexamination.¹⁹³ This presents the requester, as Judge Nies noted rather prophetically, with “the obvious strategy . . . [of] forc[ing] the patentee back to the PTO where the patentee’s presumptive advantage, as well as claim construction advantage, is eliminated.”¹⁹⁴ In the words of one practitioner, reexamination allows requesters “to make an end run around the presumption of validity.”¹⁹⁵ Second, whereas a party asserting the invalidity of a patent in court “must support the assertion by facts constituting clear and convincing evidence,”¹⁹⁶ the PTO may make rejections under “a preponderance of evidence,” a “standard of proof . . . [which] is substantially lower than in a civil case.”¹⁹⁷ Third, in district courts patent claims are “so construed, if

1988) (“A terminated reexamination proceeding may be revived for ‘unavoidable’ delay under 35§ U.S.C. 305 and 133, but not for ‘unintentional’ delay under § 41(a) (7).”).

¹⁹¹ Janis, *supra* note 61, at 57.

¹⁹² Amy J. Tindell, *Final Adjudication of Patent Validity in PTO Reexamination and Article III Courts: Whose Job Is It Anyway?*, 89 J. Pat. & Trademark Off. Soc’y 787, 793 (2007).

¹⁹³ See *Etter*, 756 F.2d at 864 (reasoning that the patent holder may amend his claims in reexamination, but may not do so in court).

¹⁹⁴ *Id.* at 862; see also Leung, *supra* note 140, at 483-84 (characterizing the differences in reexamination as “procedural advantages for a third-party requester” and suggesting that “reexamination should be a more preferable forum for challengers”).

¹⁹⁵ Conger, *supra* note 53, at 541.

¹⁹⁶ *In re Caveney*, 761 F.2d 671, 674 (Fed. Cir. 1985).

¹⁹⁷ *In re Swanson*, 540 F.3d 1368, 1377 (Fed. Cir. 2008) (citing *Caveney*, 761 F.2d at 674). The majority opinion of *Etter* distinguished the role of the PTO during reexamination from that of a litigant asserting invalidity by saying that “the examiner is not attacking the validity of the patent but is conducting a subjective examination of the claims in light of prior art.” *Etter*, 756 F.2d at 857-58. While it may be true that the PTO does not have the “stake” in showing invalidity that a defendant accused of infringement has, it is troubling that practitioners are registering the tendency of the PTO to “often reject[] all of the claims in the first OA [office action]”, thereby shifting the burden to the patent-holder to prove his patent’s validity. Sterne et al., *supra* note 58, at 25. One would hope that the outcome of such subjective examination would not be routinely unfavorable to the patent-holder, as this tendency suggests it now is.

possible, as to sustain their validity”¹⁹⁸ and are often given a “more limited construction”¹⁹⁹—one which is less vulnerable to findings of anticipation or obviousness. By contrast, in reexamination a patent’s claims are given “their broadest reasonable interpretation”²⁰⁰ (hereinafter “BRI”) and are thus *more* vulnerable to being found anticipated by, or obvious in view of, the prior art.²⁰¹ As noted by Judge Nies, this raises the possibility that a patent holder’s “claims may be valid and infringed in court but invalid in the PTO and, a fortiori, not infringed.”²⁰² And “arguably,” as practitioners have suggested, the broader standard creates “a different intellectual property right.”²⁰³ When the BRI standard is applied to the determination stage of reexamination proceedings, it functions to widen the field of potential prior art that may be deemed to raise an SNQ and, rather perversely, subjects patents to extended validity challenges at the PTO that they might more easily and more expeditiously have traversed in the courts.

These differences from the district court setting have yielded the perception within the patent bar “that broader claim construction used by the PTO, combined with the lack of any presumption of validity [and dearth of] skilled decision makers, results in far easier prior art validity challenges” in reexamination.²⁰⁴ Moreover, the recent restatement of the standard under 35 U.S.C. § 103 for determining whether a patent is “obvious” in view of prior art, articulated by the Supreme Court in *KSR International Co. v. Teleflex Inc.*²⁰⁵ has arguably extended still further the field of prior art that could give rise to an SNQ and prompt reexamination proceedings.²⁰⁶

¹⁹⁸ *ACS Hosp. Sys., Inc. v. Montefiore Hosp.*, 732 F.2d 1572, 1577 (Fed. Cir. 1984).

¹⁹⁹ *Id.*

²⁰⁰ *In re Yamamoto*, 740 F.2d 1569, 1571 (Fed. Cir. 1984). This standard was found appropriate to reexamination, just as to examination and reissue proceedings, because the patent holder in reexamination has the opportunity to amend his claims that he would not have in district court. *Id.*

²⁰¹ See Leung, *supra* note 140, at 486 (noting that the BRI standard for the “interpretation of claims would also favor a patent challenger in reexamination”).

²⁰² *Etter*, 756 F.2d at 862.

²⁰³ Sterne et al., *supra* note 58, at 24.

²⁰⁴ Sterne et al., *supra* note 58, at 25. For a scholarly critique of the BRI standard, see Dawn-Marie Bey and Christopher A. Cotropia, *The Unreasonableness of the Patent Office’s “Broadest Reasonable Interpretation” Standard*, 37 AIPLA Q.J., 285 (2009).

²⁰⁵ 550 U.S. 398 (2007).

²⁰⁶ The PTO, perhaps seeking to quell such apprehensions, has explicitly stated that *KSR* “does not alter the legal standard for determining whether a substantial new question of patentability exists . . . [and] [t]hus, a reexamination request relying on previously applied prior art that asks the Office to look at the art again based solely on the Supreme Court’s clarification

The PTO may be said to hold all the cards in that it can force patent holders to waste valuable patent life in appealing potentially unreasonable grounds for rejection; there is thus a significant incentive for patent holders to accede to an examiner's interpretation of the prior art in later stages of the proceeding.²⁰⁷ Because during reexamination the clock is running on the patent term with no prospect of extension, in some cases patent holders may choose to make claim amendments which they see as insubstantial in order to hasten the conclusion of the proceeding,²⁰⁸ even though they might have avoided such amendments and won on the merits had they been willing to spend the additional time required to appeal to the Board of Patent Appeals and Interferences (hereinafter "BPAI") and then the Federal Circuit.²⁰⁹ Of course, as a result, patent holders relinquish the ability to pursue past damages to which they might have been entitled if they had not been compelled to amend their claims.

Approximately 25% of patents have emerged from reexamination with the validity of all claims confirmed,²¹⁰ or about 1,705 patents based on the most recent statistics.²¹¹ It is difficult to ascertain how many of these reexaminations involved "close calls" concerning validity, but from the difficulties discussed, one can surmise that a fair

of the legal standard for determining obviousness under 35 U.S.C. 103 in *KSR*, without presenting the art in new light or different way, will not raise a substantial new question of patentability as to the patent claims, and reexamination will not be ordered." MPEP, *supra* note 129, § 2216, at 2200-27, 2200-28. Yet given the uncertainty as to what such "new light" consists of, and the absence of guidance in *In re Swanson*, it remains to be seen what use of *KSR* will be made by requesters and examiners.

²⁰⁷ See *McCook Metals L.L.C. v. Alcoa, Inc.*, 192 F.R.D. 242, 262 (N.D. Ill. 2000) ("In both the appeal process and the reexamination proceedings, the patent applicant or holder is in a defensive position and in an adversarial relationship to the examiner.").

²⁰⁸ See *Sterne et al.*, *supra* note 58, at 24 ("A patent owner may be forced due to these different claim construction standards into the difficult circumstance of amended claims to incorporate the court's construction and potentially lose past damages or continue to argue the issue in the reexamination proceeding and potentially extinguish all intellectual property rights in the patent. Several patent owners have faced this exact situation.").

²⁰⁹ The most recent statistics give the average time to decision on appeal to the BPAI as 6-7 months. See Board of Patent Appeals and Interferences Performance Measures, available at <http://www.uspto.gov/web/offices/dcom/bpai/docs/perform/fy2009b.pdf>. A third party requester is not permitted to participate in any appeals of an ex parte reexamination to the BPAI. See MPEP, *supra* note 129, § 2273, at 2200-130 ("A third party requester may not appeal, and may not participate in the patent owner's appeal."). However, in certain cases the Federal Circuit has allowed third parties to intervene in court appeals. See, e.g., *In re Etter*, 756 F.2d 852, 862 (Fed. Cir. 1985) ("The record in this case shows that an alleged infringer in litigation forced the reexamination . . . and was permitted to intervene and brief matters in this court."); see also MPEP, *supra* note 129, § 2279, at 2200-134.

²¹⁰ See Ex Parte Reexamination Filing Data, *supra* note 83.

²¹¹ *Id.*

number of the patents involved may have been subjected to needless review. Nor does this statistic adequately convey how many patents' validity was actually confirmed in reexamination, since the PTO tends to count even typographical corrections to claim language as if they were substantive amendments to the claims, perhaps in an effort to show that the reexamination process is merited or "working" more often than it actually is.²¹² Thus, at least a small number of the 65% of patents that have emerged from reexamination with "amended"²¹³ claims can likely be counted among the former group of valid patents. Only 11% of patents to have undergone reexamination have been wholly invalidated.²¹⁴

One recent study has presented the mean cost of an ex parte reexamination as being \$12,974²¹⁵ but this appears to be only for the preparation of a request,²¹⁶ rather than for the entire proceeding. Other evidence suggests that the legal fees associated with *defending* reexamination proceedings are, in certain cases, nearer the range of \$100,000²¹⁷ or even "hundreds of thousands of dollars."²¹⁸ In any event, it is unknown how many patent holders are forced to default as a result of the burdensome legal fees

²¹² See Notice of Intent to Issue Ex Parte Reexamination Certificate at 2, Ex Parte Reexamination of U.S. Patent No. 6,289,319, Control No. 90/006,623 (Apr. 23, 2007). In this case, the PTO confirmed the patentability of claim 1 but referred to the claim as "amended" merely because the patent owner corrected a *spelling error* (namely, adding the letter "i" to change "inquires" to read "inquiries"), which the PTO *itself* had made when the patent was originally issued. The PTO refused the patent owner's request to change the status of the claim from "amended" to "confirmed," though it noted that "the merit and enforcing rights of the patent owner are neither denied nor reduced in any manner, form or substance" by the correction. *Id.*

²¹³ See Ex Parte Reexamination Filing Data, *supra* note 83.

²¹⁴ *Id.*

²¹⁵ Am. Intellectual Prop. Law Ass'n, Report of the Economic Survey I-82, chart Q33m (2007).

²¹⁶ This may not even give an accurate sense of the range of costs incurred by requesters in preparing requests. For example, in the Ecast malpractice case, the plaintiff claimed that its law firm had advised it that the "estimated cost of [preparing a reexamination request would] be approximately \$100,000.00 per patent." See Complaint at 7, *Ecast Inc. v. Morrison & Foerster LLP*, No. CGC-09-487063 (Cal. Super. Ct., Apr. 8, 2009). This was represented as relatively cheap compared to the \$4.8 million in attorney's fees Ecast incurred in having to defend the patent litigation allegedly as a result of its law firm's failure to file requests for reexamination against the patent holder.

²¹⁷ In the *Lockwood* case, the plaintiff stated that his "patent attorney estimated [the reexamination defense] would cost \$100,000.00 in legal expenses alone." Declaration of Lawrence B. Lockwood at 17, *Lockwood v. Sheppard, Mullin, Richter & Hampton, LLP*, No. 09-CV-5157 (C.D. Cal. Oct. 22, 2009).

²¹⁸ See Remarks of Senator Jon Kyl, *supra* note 36.

associated with defending the reexamination, with the result that their “claims [are] cancelled as a result of their default, even when the reexamination would not have presented a meritorious case,”²¹⁹ but just a small number of such instances would reduce the 11% of cases in which the PTO cancelled all claims on putatively substantive grounds.²²⁰

Because the PTO simply adopts the reasoning of requesters in its initial decisions,²²¹ “often reject[ing] all of the claims in the first OA [office action],”²²² preliminary rulings during the reexamination process often send the wrong signal, causing investors to flee a stock without reason. For example, as mentioned above, Tessera Technologies’ stock dropped²²³ by 39% the day the third party requester issued a press release stating that “the Patent Office issued an Official Action rejecting Tessera’s . . . patent . . . [and] the Patent Office rejected every claim of the ‘627 patent that is in reexamination.”²²⁴ The press release failed to note, however, that the PTO’s action was *non-final*²²⁵ and, moreover, only the *first* such action received in the reexamination. The share price did not begin to recover until Tessera’s general counsel reassured investors

²¹⁹ Conger, *supra* note 53, at 555.

²²⁰ That Senator Kyl mentions “many” such instances is some indication that they may not be altogether uncommon. See Remarks of Senator Jon Kyl, *supra* note 36. Future studies in this area could determine the extent to which default, bankruptcy, or other financial strain is brought to patentees as a result of reexamination.

²²¹ See Janis, *supra* note 61, at 48.

²²² See Sterne et al., *supra* note 58, at 25.

²²³ *Id.* at 4 n.10; see also Maurna Desmond, *Investors Turn On Patent-Challenged Tessera*, Forbes, Mar. 4, 2008. By my estimate, the one-day loss represented more than \$437 million in shareholder value.

²²⁴ See Press Release, Orrick, Herrington & Sutcliffe, Siliconware Wins Again in Its Patent Reexamination Fight Against Tessera, (Mar. 4, 2008), available at http://www.orrick.com/news_events/releases.asp?action=article&articleid=6026.

²²⁵ In an amicus brief to the Supreme Court, the PTO recognized that “the existence of such a [non-final] proceeding by itself implies nothing meaningful about its likely outcome” but this view has not improved the confidence of investors. See Brief for the United States as Amicus Curiae Supporting Respondent at 27, *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006) (No. 05-130), available at <http://www.justice.gov/atr/cases/f215700/215790.pdf>. In fact, the PTO’s position raises a further question: if the existence of a reexamination proceeding implied nothing meaningful about its likely outcome, then how must we interpret the standard by which reexamination is initiated in the first place? By logical extension, the PTO’s position implies that the existence of the SNQ by itself implies nothing meaningful about the outcome of a reexamination, i.e., it implies nothing meaningful about a patent’s validity or invalidity. This absurd implication can only point to flaws in both the SNQ threshold and the PTO’s interpretation of it.

and the press, explaining that “claims of a patent can not [sic] be invalidated in reexamination until the process is fully complete, including all appeals.”²²⁶ While such examples may rightly be viewed as primarily the result of miscommunication and poorly managed public relations, it can hardly be questioned that such damage to shareholder value would be unjust in cases where the reexaminations themselves were unwarranted or instigated under false pretenses. The existence of reexamination proceedings might even be a helpful indicator to the market if the process were more reliable—if it were instigated less often for harassment or if sham requests were not leading to baseless proceedings—but because of the vulnerability of the SNQ threshold to abuse, the loss of confidence in a patent’s validity is often unfounded.

C. Constitutional Issues

Better understanding of the potential for fraudulent reexamination proceedings may prompt some to revisit several constitutional questions that were raised not long after the reexamination laws were instituted. In *Patlex I*, the plaintiffs alleged that the retroactive effect of the reexamination legislation violated their right to due process under the Fifth Amendment,²²⁷ and that reexamination proceedings deprived them of their Seventh Amendment right to have validity determined by a jury²²⁸ or by an Article III court.²²⁹ The Federal Circuit rejected the arguments regarding the alleged Fifth Amendment violation, holding that “the overriding public purposes Congress articulated in enacting the reexamination law with retroactive effect are entitled to great weight, and that Congress did not act in an arbitrary and irrational way to achieve its desired purposes.”²³⁰ The court also rejected the Seventh Amendment and Article III arguments, “find[ing] no constitutional infirmity . . . in patent reexamination by the PTO” primarily on the grounds that patents are “public rights.”²³¹

However, Mark Janis has argued that “because of the tie between administrative patent revocation and the public rights doctrine, the Seventh Amendment impact of proposed reexamination reform will vary as the public rights doctrine continues to evolve,” and that “a more restrictive approach to the public rights doctrine could lead to serious questions about whether the existing reexamination scheme complies with the

²²⁶ Maurna Desmond, *Tessera Up After Reassurances*, *Forbes*, Mar. 6, 2008.

²²⁷ *Patlex I*, 758 F.2d 594, 600-01 (Fed. Cir. 1985).

²²⁸ *Id.* at 602.

²²⁹ *Id.*

²³⁰ *Id.* at 603.

²³¹ *Id.* at 604.

jury guarantee.”²³² Noting Judge Nies’ dissent in *In re Lockwood*,²³³ Janis goes so far as to assert that “the public rights rationale has arguably been eviscerated by the Federal Circuit’s decision in *Lockwood*” and that “as Judge Nies pointed out . . . although the *Lockwood* majority does not explicitly overrule *Patlex I* . . . [that] decision[] seem[s] irreconcilable with *Lockwood*.”²³⁴ However this may be, Janis may prove prescient in predicting it “inevitable” that reexamination “will spawn another . . . constitutionality challenge” along the lines of *Patlex I*.²³⁵

A fuller appreciation of the extent to which the reexamination process is subject to gamesmanship and outright fraud may demand reconsideration²³⁶ of even the narrower

²³² Janis, *supra* note 61, at 89.

²³³ See *In re Lockwood*, 50 F.3d 966 (Fed. Cir. 1995), *vacated*, 515 U.S. 1182 (1995), an important decision in which the majority held that the patent holder has a right to a jury trial on validity issues in declaratory judgment actions. When defendant American Airlines’ subsequent petition for a writ of certiorari was granted by the Supreme Court, however, *Lockwood* withdrew his request for a jury trial, thus mooting the question in dispute. Accordingly, the Supreme Court remanded the case to the district court, taking the additional step however of vacating the Federal Circuit’s decision. As the Federal Circuit later noted in *Tegal v. Tokyo Electron*, “the Supreme Court vacated *Lockwood* without explanation. Thus, our analysis has been neither supplanted nor questioned. Although no longer binding, we find its reasoning pertinent.” *Tegal Corp. v. Tokyo Electron Am., Inc.*, 257 F.3d 1331, 1340 (Fed. Cir. 2001).

²³⁴ Janis, *supra* note 61, at 90. Janis goes on to observe that “[t]he approach espoused by the *Lockwood* majority could be construed to preclude Congress altogether from enacting ambitious schemes for administrative patent revocation” but he ultimately believes that the “better approach would be to reject the *Lockwood* majority on the basis of either the public rights doctrine . . . or the Seventh Amendment historical analysis,” owing to his view of the “futility of the historical analysis” and preference for “functional considerations.” *Id.* at 92.

²³⁵ *Id.* at 89. While disagreeing with the majority, Judge Nies pointed out forcefully that its “rationale [in *Lockwood*] cannot explain the *Patlex* case which denied the patentee litigant a right to a jury to determine validity. *Patlex must be overruled under the panel’s reasoning.*” *In re Lockwood*, 50 F.3d at 983 (Nies, J., dissenting) (emphasis added).

²³⁶ In a recent interview, Former Chief Judge Paul R. Michel stated that “I don’t share the idea that the court can’t lead . . . [or] can’t improve . . . In fact, I’m surprised by how seldom we’re asked on rehearing petitions to confront any fundamental doctrine or question any of our own precedents . . .” When asked whether he thought it was fair for litigants to challenge precedents directly (rather than, e.g., allege a conflict between cases), Michel replied, “Sure. Of course . . . I’m surprised by how unimaginative, unaggressive, shallow most of the rehearing petitions are, and that very much handicaps the court. Now on the other hand, we frequently lurch toward going en banc and then don’t do it, in the sense that of course it takes 7 votes out of the 12 active judges, and very often we get 4 or 5, and maybe 6, but getting the seventh vote to rehear a panel decision en banc has proved to be extremely difficult . . . I think that amicus brief writers from academia, from industries, from bar associations, etc., might be able to play a very important role to strengthen the case for rehearing en banc . . .” Interview with Former Chief

constitutional issues raised in *Patlex II*, for example the challenge to 37 C.F.R. §1.530 on the grounds that, by preventing the patent holder from responding to the representations of the requester during the SNQ period, the statute violates his right to due process.²³⁷ The Federal Circuit concluded “the general rule is that the demands of due process do not require a hearing at the initial stage . . . in an administrative patent proceeding”²³⁸ and that “[t]he determination that a substantial new question of patentability exists . . . lacks those special circumstances of irreparable harm which have characterized exceptions to the general rule.”²³⁹ However, from a policy perspective at least, the PTO itself has recognized that altering the statute to allow patent holders the right to respond would improve the effort to protect them from harassment.²⁴⁰

Other commentators, some of them critical of the Federal Circuit’s actions in *Translogic Tech., Inc. v. Hitachi, Ltd.*,²⁴¹ have recently raised these constitutional issues anew.²⁴² In *Translogic*, the district court found a patent valid, imposed monetary damages and a permanent injunction; the BPAI, in a parallel reexamination proceeding, had issued a rejection of the same patent as obvious about two months after the district court’s decision.²⁴³ The Federal Circuit, confronted with simultaneous appeals from the district court and the BPAI, affirmed the BPAI’s rejection and vacated the district court judgment.²⁴⁴ While one commentator seems to have misread the posture of the *Translogic* case,²⁴⁵ her indignation is understandable. If a jury holds a patent valid over

Judge Paul R. Michel (Jan., 2009), *available at*
<http://www.ipcolloquium.com/Programs/Media/IPC-Program4.mp3>.

²³⁷ *Patlex II*, 771 F.2d 480, 483 (Fed. Cir. 1985).

²³⁸ *Id.* at 485 (citing *Opp. Cotton Mills, Inc. v. Administrator*, 312 U.S. 126, 152-53 (1941)).

²³⁹ *Id.* at 485.

²⁴⁰ See 71 Fed. Reg., *supra* note 133, at 16073 (“Such a patent owner reply . . . should serve the purpose of reducing improper/unnecessary orders.”). However, the PTO did not adopt the proposed changes, chiefly because any delay caused by the patent owner’s response would be inconsistent with reexamination’s statutory requirement for special dispatch.

²⁴¹ 250 F. App’x 988 (Fed Cir. 2007).

²⁴² See Megan Keane, *Patent Reexamination and the Seventh Amendment*, 77 Geo. Wash. L. Rev. 1101 (2009); *see also* Tindell, *supra* note 191.

²⁴³ *Translogic*, 250 F. App’x 988.

²⁴⁴ *Id.*

²⁴⁵ Keane sees the implication of *Translogic* to be “that a jury verdict can be reversed based on a review of an administrative agency decision even though the agency’s decision is *not yet final*.” Keane, *supra* note 241, at 1106 (emphasis added). That would be troubling indeed, but the fact is that the BPAI’s decision in *Translogic* was final, and the Federal Circuit’s affirmance of the rejection of the very claims found infringed by the district court (namely, claims 16 and 17)

certain prior art, there may be significant Seventh Amendment issues if the verdict were to be overturned as the result of a contrary PTO determination on the same prior art in reexamination. Wayne Paugh has recently driven home this point as a matter of policy, arguing that the PTO should not “conduct[] a post-decision reexam initiated by the same parties using the same prior art or evidence considered by the district court”²⁴⁶ and that “the reexamination process . . . [should] function as an alternative to litigation, not a supplement to it.”²⁴⁷

D. Allegations of Abuse

I now turn in somewhat granular detail to several reexaminations in which patent holders complained of misrepresentation by the third party requester. In doing so, of course, I do not endorse any allegation of wrongdoing against any specific parties, but merely reproduce what is already of public record.

1. Reexamination of U.S. Patent No. 4,670,749.

On August 11, 2003, Zilog, Inc. (hereinafter “Zilog”) sued Quicklogic Corporation (hereinafter “Quicklogic”) in the Northern District of California, alleging infringement of U.S. Patent No. 4,670,749 (hereinafter “the Freeman patent”²⁴⁸). Quicklogic requested its first reexamination of the ‘749 patent on November 21, 2003, and filed a motion to stay the litigation pending the outcome of the reexamination. The request for reexamination was granted and the court accordingly stayed the litigation on March 31, 2004.

Seven months after the reexamination was ordered, the PTO issued its first office action, finding claim 3 to be patentable but rejecting claims 1 and 2 as being anticipated

seems to have compelled the result in this case. It is unclear from the record whether the district court, in finding the patent valid, had the opportunity to consider the prior art that formed the basis for the BPAI’s rejection. If it did not, that would of course mean that the BPAI was not second-guessing the district court’s finding as to the same prior art, but was considering new art.

²⁴⁶ Wayne B. Paugh, *The Betrayal of Patent Reexamination: An Alternative to Litigation, Not a Supplement*, 19 Fed. Cir. B.J. 177, 195 (2009).

²⁴⁷ *Id.* at 181.

²⁴⁸ Inventor Ross Freeman was recently inducted into the National Inventors Hall of Fame on the strength of another invention, patented as U.S. Patent No. 4,870,302. See Press Release, Xilinx, Xilinx Co-Founder Ross Freeman Honored as 2009 National Inventors Hall of Fame Inductee for Invention of FPGA (Feb. 11, 2009), available at http://www.redorbit.com/news/technology/1637780/xilinx_cofounder_ross_freeman_honored_as_2009_national_inventors_hall/.

by U.S. Patent No. 4,207,556 (hereinafter “Sugiyama”).²⁴⁹ In its response, Zilog alleged that Quicklogic had “distorted and misrepresented the disclosure of Sugiyama,” noting that “[a]lthough switches 41aa and 41ij in Sugiyama are depicted as identical structures in Figure 1 of Sugiyama” Quicklogic “has distorted the Sugiyama disclosure in an effort to make it look more like the patented structure in the Freeman patent.”²⁵⁰ Zilog referred to a figure labeled the “Electrical Equivalent of Sugiyama ‘556’²⁵¹ which had been drawn by Quicklogic in its request, essentially contending that the figure Quicklogic proffered as “equivalent” was actually a misrepresentation of Sugiyama’s teaching.

For example, Zilog noted that “in contrast to the *differentiation* between ‘switches 43’ and ‘switches 41aa’ taught by Sugiyama, the Requester’s [figure] depicts [the switches] as *identical*.”²⁵² Further, “the Requester’s [figure] depicts [one of the switches] as being in the path of a row line that *continues* before connecting with an unlabeled column line, whereas in reality that row line does *not* continue in the path”²⁵³ Finally, Zilog pointed out that the “row line is depicted in the Requester’s [figure] as being at the *same* level of as the unlabeled column line, whereas Sugiyama teaches that the row line and the column line are at *different* levels.”²⁵⁴

Initially, the examiner does not seem to have been persuaded by Zilog’s position and maintained the rejection,²⁵⁵ but when Zilog reiterated its arguments in an appeal brief before the BPAI,²⁵⁶ the examiner dropped the rejection and confirmed the validity of the claims, dismissing the appeal.²⁵⁷

Quicklogic filed its second request for reexamination less than three weeks after

²⁴⁹ Non-Final Office Action, at 3, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control No. 90/006,871 (Sept. 15, 2004).

²⁵⁰ Request for Reconsideration, at 3, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control No. 90/006,871 (Oct. 14, 2004).

²⁵¹ Request for Ex Parte Reexamination, at 12, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control No. 90/006,871 (Nov. 21, 2003).

²⁵² Request for Reconsideration, at 6, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control No. 90/006,871 (Oct. 14, 2004) (emphasis added).

²⁵³ *Id.* at 7 (emphasis added).

²⁵⁴ *Id.* (emphasis added).

²⁵⁵ *See* Final Office Action, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control No. 90/006,871 (Feb. 28, 2005).

²⁵⁶ *See* Appeal Brief, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control No. 90/006,871 (June 15, 2005).

²⁵⁷ *See* Notice of Intent to Issue Ex Parte Reexamination Certificate, at 2, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control No. 90/006,871 (July 24, 2006).

the validity of the Freeman patent was confirmed in the first proceeding, this time submitting two Japanese patents as prior art (“Matsuo” and “Hirajima”).²⁵⁸ The examiner rejected all claims of the ‘749 patent in his first office action.²⁵⁹

Zilog “respectfully object[ed] to the creation of new figures that are not disclosed in Matsuo, but instead have been fabricated by the Third Party Requester,” and registered its belief “that Requester has in this fashion misled the Patent Office” and that “as with the prior reexamination of this patent, the Requester has distorted the reference figures in an attempt to create an anticipatory reference.”²⁶⁰ As Zilog pointed out, the PTO reproduced and apparently relied on two figures which Quicklogic itself created and represented to be “based on a combination of Figure 3 and Figure 4(a) and (4b) of Matsuo.”²⁶¹ As with the figure purported to be equivalent to Sugiyama in the first reexamination, Zilog explained how Quicklogic’s “fabricated Figure A and Figure B are not operable with the real figures and text of Matsuo,”²⁶² noting that the translation of Matsuo submitted by Quicklogic was “uncertified”²⁶³ and concluding that “the Requester has . . . created drawings that contradict Matsuo and would not function.”²⁶⁴

Zilog noted “curious differences from the Requester’s uncertified translation of Hirajima,”²⁶⁵ and its own certified translation. It pointed out that Quicklogic translated a word from Hirajima as “incorporation,” that Quicklogic had added a footnote “alleging that the word in the original document is strange, so that the word ‘incorporation’ must have instead been intended,” and that Quicklogic had represented that Hirajima was referring to “the D-latch 600 and switching circuit 700” in the translated passage.²⁶⁶ Zilog—pointing out that the PTO again reproduced the translation and interpretation

²⁵⁸ See Request for Ex Parte Reexamination, at 2, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control No. 90/008,163 (Aug. 14, 2006).

²⁵⁹ See Non-Final Office Action in Ex Parte Reexamination, at 3, 7, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control No. 90/008,163 (Aug. 28, 2007).

²⁶⁰ Request for Reconsideration, at 3-4, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control No. 90/008,163 (Sept. 24, 2007).

²⁶¹ *Id.* at 5. The PTO reproduced Quicklogic’s figures as part of its explanation of the rejections. See Non-Final Office Action, at 3, 6, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control No. 90/008,163 (Aug. 28, 2007).

²⁶² Request for Reconsideration, at 5, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control No. 90/008,163 (Sept. 24, 2007).

²⁶³ *Id.* at 6.

²⁶⁴ *Id.* at 7.

²⁶⁵ *Id.* at 11 n.4.

²⁶⁶ *Id.* at 16.

proffered by Quicklogic—argued, however, that its own translation revealed Hirajima to disclose “wiring rather than incorporation” and that the “cells to be wired” were not “the D-latch 600 and switching circuit 700” but rather “cell 500 and cell 600.”²⁶⁷

Altera, Inc., (hereinafter “Altera”), which Zilog had in the meantime sued for infringing the Freeman patent, filed its own request for reexamination of the Freeman patent, resubmitting prior art previously filed by Quicklogic (namely the Sugiyama, Matsuo, and Hirajima references) along with several other references (hereinafter “El-Ziq” and “Mead-Conway”).²⁶⁸ The PTO granted the request and soon merged the new proceeding with the second Quicklogic reexamination, which was still pending,²⁶⁹ at which point it issued an office action rejecting all claims of the Freeman patent.²⁷⁰

In its response, Zilog stated that the “first thing that one may notice in reading the Requester’s explanation of El-Ziq is that the Requester’s ‘Figure 4 of El-Ziq’ does not look like the real Fig. 4 of El-Ziq, but is instead rotated ninety degrees The Requester then enlarges a section of the rotated Fig. 4, cutting off many of the connections and rendering the symbols unintelligible, except for the symbols that the Requester inserts . . . [and] one might ask why the Requester[] feels it necessary to redraw the reference figure.”²⁷¹

Zilog went on to explain that whereas Quicklogic had stated that “Mead-Conway also has not been previously considered . . . [and t]herefore . . . constitutes new prior art,” in fact the reference was “listed on the front page of the Reexamination Certificate” for the ‘871 reexamination, which had confirmed the patentability of the Freeman patent.²⁷²

“As is becoming evident,” Zilog continued, “the modus operandi of redrawing figures and rehashing arguments that were considered and rejected by previous Examiners runs throughout the Request.”²⁷³ Turning to the Sugiyama patent, which had been submitted once again by Quicklogic, Zilog stated, “At this point one may be tired of

²⁶⁷ *Id.* (emphasis added).

²⁶⁸ *See* Request for Ex Parte Reexamination, at 4, 11-12, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control No. 90/010,118 (Mar. 7, 2008).

²⁶⁹ *See* Decision Merging Reexamination Proceedings, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control Nos. 90/008,163, 90/010,118 (Aug. 22, 2008).

²⁷⁰ *See* Non-Final Office Action in Ex Parte Reexamination Proceeding, at 6, 21, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control Nos. 90/008,163, 90/010,118 (Oct. 28, 2008).

²⁷¹ Request for Reconsideration, at 5, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control Nos. 90/008,163, 90/010,118 (Nov. 25, 2008).

²⁷² *Id.* at 13.

²⁷³ *Id.* at 16.

asking why the Requester[] feels it necessary to redraw the reference figures,”²⁷⁴ and Zilog repeated many of its previous arguments against Sugiyama, Matsuo and Hirajima, with a view to revealing that Quicklogic “hope[d] that its distorted drawings [would] somehow change Sugiyama to meet”²⁷⁵ the limitations in the claims of the Freeman patent.

These arguments apparently did not convince the examiner, who issued a final rejection of the Freeman patent. Although Zilog filed a notice of appeal, it failed to file an appeal brief and consequently the claims of the Freeman patent were canceled.²⁷⁶

After more than six years spent in reexamination, during which the PTO was remarkably unresponsive to repeated complaints of misrepresentation by the requester, and in view of the fact that Zilog was limited to seeking past damages, the conclusion was very possibly reached that the patent, although genuinely thought valid over the prior art, was no longer worth fighting for.

2. Reexamination of U.S. Patent 6,860,074

On January 24, 2005, Pergo, Inc. and Pergo (Europe) AB (hereinafter “Pergo”) sued Faus Group, Inc. and Industrias Auxiliares Faus S.L. (hereinafter “Faus”) in the Eastern District of North Carolina, alleging patent and copyright infringement. Pergo amended its complaint on March 1, 2005, to add a claim for infringement of U.S. Patent No. 6,860,074 (hereinafter “the Stanchfield patent”).²⁷⁷ Pergo moved for a preliminary injunction against Faus on May 5, 2005, and about seven weeks later Faus’ counsel requested reexamination of the Stanchfield patent.²⁷⁸ The request was granted,²⁷⁹ and on October 20, 2005 Faus filed a motion to stay the litigation pending the outcome of the reexamination.²⁸⁰

²⁷⁴ *Id.* at 19.

²⁷⁵ *Id.* at 20.

²⁷⁶ See Notice of Intent to Issue Ex Parte Reexamination Certificate, at 2, Ex Parte Reexamination of U.S. Patent No. 4,670,749, Control Nos. 90/008,163, 90/010,118 (Dec. 2, 2009).

²⁷⁷ *Pergo, Inc. v. Faus Group, Inc.*, 401 F. Supp. 2d 515, 517 (E.D.N.C. 2005).

²⁷⁸ See Request for Ex Parte Reexamination, at 1, Ex Parte Reexamination of U.S. Patent No. 6,860,074, Control No. 90/007,603 (June 24, 2005).

²⁷⁹ Order Granting Request for Ex Parte Reexamination, at 5, Ex Parte Reexamination of U.S. Patent No. 6,860,074, Control No. 90/007,603 (Sept. 12, 2005).

²⁸⁰ Defendants’ Memorandum in Support of Motion to Stay Litigation Pending Decision on Reexamination of the Pergo Utility Patents-in-Suit at 1, *Pergo, Inc. v. Faus Group, Inc.*, 401 F. Supp. 2d 515 (E.D.N.C. 2005) (No. 5:05-CV-50-FL(1)).

At issue was the weight the court should give the reexamination proceeding in deciding whether to grant Pergo's motion for a preliminary injunction. Pergo contended that "Faus found it necessary to doctor the prior art in its submission to the [PTO], especially as to the Kornfalt and Kelly references."²⁸¹ It explained that "Kelly's purported disclosure was not prior art but was a different diagram drawn by counsel for Faus," and that "Faus' arguments of unpatentability over Kelly were based on those redrawn drawings."²⁸² Likewise, it alleged that "the drawings of Kornfalt were arbitrarily colored by an attorney for Faus in such a manner as to purportedly depict a tongue and groove joint, [whereas] in fact none of the original drawings or written description of Kornfalt provided such a disclosure."²⁸³

Pergo reminded the court that although Faus' expert had adopted those drawings in his declaration, the expert later testified in his deposition that "he did not know who created the drawing, that he had only first seen the accused FasTrim product the day before his deposition, and that the drawing did not accurately represent the FasTrim product."²⁸⁴ Pergo's own expert asserted that "the figure drawn by Defendants . . . does not appear in the Kelly patent," and that "[i]n this sense, Defendants are manufacturing prior art by redrawing the figures of the patent."²⁸⁵

Nevertheless, the court denied Pergo's motion for a preliminary injunction and held that it had failed to show "a likelihood of success on the merits, on the issue of whether their claim of infringement as to claim 6 of the [Stanchfield] patent will survive the invalidity challenge raised by defendants"²⁸⁶—chiefly because the PTO had found an SNQ and commenced reexamination. The court found the existence of the reexamination proceeding sufficient to raise "a substantial question of validity" that precluded Pergo from demonstrating a likelihood of success for the purpose of prevailing on a preliminary injunction motion.²⁸⁷ In so holding, the court seemed to take no notice of Pergo's allegations regarding the manipulation of the Kornfalt and Kelly references. Nor is it clear that the court adequately assessed the weight to be given the existence of a reexamination proceeding, after having been inaccurately informed by counsel for Faus

²⁸¹ Plaintiff's Supplemental Brief Regarding the Effect of the Request for Reexamination of the '074 Patent at 6, *Pergo, Inc. v. Faus Group, Inc.*, 401 F. Supp. 2d 515 (E.D.N.C. 2005) (No. 5:05-CV-50-FL(1)).

²⁸² *Id.*

²⁸³ *Id.*

²⁸⁴ *Id.* at 7.

²⁸⁵ Second Declaration of Eugene C. Rzucildo at 3, *Pergo, Inc. v. Faus Group, Inc.*, 401 F. Supp. 2d 515 (E.D.N.C. 2005) (No. 5:05-CV-50-FL(1)).

²⁸⁶ *Pergo, Inc. v. Faus Group, Inc.*, 401 F. Supp. 2d 515, 525 (E.D.N.C. 2005).

²⁸⁷ *Id.* at 524.

that “one percent of the requests [for reexamination are] granted.”²⁸⁸ The case was settled several months later. The reexamination itself has since confirmed the validity of the Stanchfield patent over all the prior art submitted by the requester.²⁸⁹

3. Reexamination of U.S. Patent No. 5,472,444

On October 14, 2004, Acumed, LLC (hereinafter “Acumed”) sued Smith & Nephew, Inc. (hereinafter “Smith & Nephew”) in the District of Oregon alleging infringement of U.S. Patent No. 5,472,444 (hereinafter “the Huebner patent”).²⁹⁰ The litigation was settled in August 2005, with Smith & Nephew agreeing to a consent order that admitted infringement of the patent and precluded the company from ever contesting the patent’s validity, except through a reexamination proceeding.²⁹¹ Accordingly, Smith & Nephew filed a request for reexamination on February 10, 2006.²⁹²

The PTO rejected several claims in view of a brochure (hereinafter “the Alta brochure”) submitted by Smith & Nephew. However, Acumed later pointed out that “[w]hat the requestor fails to mention in its submission is that there is another contemporaneous Alta publication that it did not disclose to the Patent Office – the Alta ‘Surgical Techniques’ manual which summarizes how the disclosed device is supposed to be used. This manual makes it clear that . . . the Alta brochure used as the basis for the instant rejection does not teach one of skill in the art each and every element of the subject claims of the Acumed patent.”²⁹³

Had Smith & Nephew submitted the withheld manual, Acumed continued, it would have been clear that the device disclosed by the Alta brochure was intended only “for humeral fractures, *not* fractures of the humeral *cortex*.”²⁹⁴ Acumed speculated that this distinction, revealing the inapplicability of the Alta brochure to the Huebner patent,

²⁸⁸ Transcript of Tutorial and Hearing on Motion for Preliminary Injunction at 78-79, *Pergo, Inc. v. Faus Group, Inc.*, 401 F. Supp. 2d 515 (E.D.N.C. 2005) (No. 5:05-CV-50-FL(1)).

²⁸⁹ See *Parte Pergo (Europe) AB* at 9, Appeal 2009-001430, Control No. 90/007,603 (B.P.A.I. Aug. 11, 2009).

²⁹⁰ See Complaint, *Acumed, LLC v. Smith & Nephew, Inc.*, No. 04-CV-1498 (D. Or. Oct. 14, 2004).

²⁹¹ See Consent Judgment and Order at 3-4, *Acumed, LLC v. Smith & Nephew, Inc.*, No. 04-CV-1498 (D. Or. Aug. 15 2005).

²⁹² See Request for Ex Parte Reexamination, at 4, Ex Parte Reexamination of U.S. Patent No. 5,472,444, Control No. 90/007,923 (Feb. 10, 2006).

²⁹³ Response to Office Action, at 8-9, Ex Parte Reexamination of U.S. Patent No. 5,472,444, Control No. 90/007,923 (Oct. 17, 2006).

²⁹⁴ *Id.* at 9 (emphasis added).

was “[p]erhaps . . . why Smith & Nephew chose to ignore the . . . manual” during the court proceedings.²⁹⁵

The examiner accepted Acumed’s arguments, withdrew the rejections over the Alta brochure, and confirmed the patentability of all claims.²⁹⁶

IV. DO PATENT HOLDERS HAVE A REMEDY?

A. *State Tort Liability as a Remedy*

While the tort of malicious prosecution has not been extended to quasi-judicial administrative proceedings in all jurisdictions, “the continually expanding role of administrative bodies that perform quasi-judicial functions”²⁹⁷ has led many to conclude, in the words of the Rhode Island Supreme Court, that “when a party invokes an administrative proceeding with malicious intent and without probable cause, that party should be subject to the same sanctions that would obtain if the action were brought in the judicial branch.”²⁹⁸ Extending this tort to “quasi-judicial contested administrative determinations or proceedings that establish legal rights, duties, or privileges,”²⁹⁹ serves to “recognize[] and protect[] their intended quasi-judicial nature without unduly enlarging the scope of the tort remedy.”³⁰⁰

Accordingly, I argue that, without a specific federal cause of action provided to patent-holders by the reexamination statutes, the state law tort of malicious prosecution is the best alternative. Indeed, tort actions against third party requesters were thought a possible remedy for unwarranted reexaminations as early as 1981.³⁰¹ The tort of malicious prosecution allows patent-holders a remedy whereby they can make themselves whole from any harm suffered by a reexamination proceeding brought without probable cause. At the same time, extending liability to third party requesters serves as an incentive for them to comply with the duty of candor, a mirror image of the incentive for

²⁹⁵ *Id.* at 10.

²⁹⁶ See Notice of Intent to Issue Ex Parte Reexamination Certificate, at 2, Ex Parte Reexamination of U.S. Patent No. 5,472,444, Control No. 90/007,923 (Oct. 15, 2007).

²⁹⁷ *Hillside Assocs. v. Stravato*, 642 A.2d 664, 667 (R.I. 1994).

²⁹⁸ *Id.* at 668-69.

²⁹⁹ *Id.* at 669.

³⁰⁰ *Haynes v. Coleman*, 30 So.3d 420, 428 (Ala. Civ. App. 2009) (Moore, J., dissenting).

³⁰¹ See *Handal*, *supra* note 19, at 252 (warning requesters to “consider the liabilities that would arise from such acts, either by virtue of the anticompetitive provisions of the antitrust laws or the recourse which an injured party has under state tort law doctrines”).

honesty furnished to patent applicants by the inequitable conduct doctrine.³⁰² Tort liability furthers the institutional interests of the PTO by discouraging meritless reexamination proceedings which are a waste of PTO resources. Yet the specific tort of malicious prosecution also protects the reexamination process from a “chilling effect” because the widely recognized “favorable termination” element of the tort would require that the reexamination conclude in favor of the patent holder before he could sue—thus shielding requesters from liability for those proceedings which truly have merit.

B. The Test Case: Lockwood v. Sheppard, Mullin, Richter & Hampton

1. *Lockwood*-type Claims Present No Conflict with Congressional Objectives

As mentioned at the outset, *Lockwood* promised to be an important test case in this area,³⁰³ though the Federal Circuit ultimately left for another day the question of whether patent holders have any recourse for the harms they suffer when current safeguards against unwarranted reexaminations fail. In what follows, I consider the *Lockwood* case and offer several reasons why I believe the finding of preemption affirmed therein should not bar future such claims.

It is true that permitting *Lockwood*-type tort claims to go forward does not in itself promote the uniformity of patent law, and uniformity is an important aspect of the patent system.³⁰⁴ Yet, since jurisdiction of such cases will remain with the federal courts, neither will that uniformity be significantly undermined. For to succeed, the plaintiff in a *Lockwood* claim would have to prove that “but for [the requester’s] misrepresentations, the USPTO would not have granted the request for reexamination,” requiring the court

³⁰² See Wasserman, *supra* note 15, at 11 (“The doctrine of inequitable conduct provides the applicant with a powerful incentive to comply with his duty of disclosure and therefore to help to ensure that patents issued by the PTO are of high quality.”). Thus, similarly, the extension of tort liability to third-party requesters would help ensure that requests for reexamination are of high quality and non-frivolous.

³⁰³ The *Ball* case is, to my knowledge, the only other in which an aggrieved patent holder brought tort claims against the third-party requester. Although the plaintiff in *Ball* ultimately lost, the Tenth Circuit did hold that the duty of candor “applies to both the requester and the patent defender, as well as to their respective attorneys and agents,” that “this duty includes an obligation to correct misrepresentations to the PTO,” and that there was no “license [for third-party requesters] to commit intentional torts.” *Ball Corp. v. Xidex Corp.*, 967 F.2d 1440, 1445-47 (10th Cir. 1992).

³⁰⁴ See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 162 (1989) (emphasizing importance of “national uniformity” in patent law).

“to determine whether the prior art raises a ‘substantial new question of patentability.’”³⁰⁵ Because *Lockwood*-type tort claims necessarily raise these substantial questions of federal patent law, they will be subject to federal jurisdiction under 28 U.S.C. § 1338(a),³⁰⁶ and the uniformity of patent law will not be harmed when federal judges are deciding patent issues. As even the critics of the Federal Circuit’s decision in *Hunter Douglas v. Harmonic Design, Inc.*³⁰⁷ have conceded, the “values of national uniformity will be promoted since the Federal Circuit will ultimately determine whether the federal patent law issue in the state law cause of action was properly decided.”³⁰⁸ *Hunter Douglas*, which preempts only those state law claims that fail to allege “fraud before the PTO or . . . bad faith in the marketplace,”³⁰⁹ “provides a workable rule of preemption that will foster uniformity while maintaining appropriate respect for local and state interests.”³¹⁰

While the rule articulated in *Hunter Douglas* was specifically directed to the patent holder’s conduct, I see no logic which would preclude its application to the requester: if there is fraud before the PTO, this may open the perpetrator to state tort liability, regardless of whether he perpetrated the fraud in calling into question another’s entitlement to a patent or in obtaining one for himself. *Lockwood*-type tort claims, premised on sham reexamination proceedings instigated in bad faith, should escape preemption under an application of the *Hunter Douglas* rule to misconduct on the part of the requester.

One might fear that subjecting the reexamination process to “the shadow of 50 States’ tort regimes”³¹¹ would result in the states dictating new standards applicable to the reexamination process. Indeed, the Federal Circuit has rightly preempted states from developing a “different state inventorship standard,” although in doing so it explicitly declined to preempt the underlying state cause of action.³¹² By contrast, the elements of

³⁰⁵ *Lockwood v. Sheppard, Mullin, Richter & Hampton*, 93 Cal. Rptr. 3d 220, 228 (Ct. App. 2009).

³⁰⁶ *Id.*

³⁰⁷ 153 F.3d 1318 (Fed. Cir. 1998), *overruled by Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999).

³⁰⁸ David J. Gutowski, *Preemption, Exclusive Jurisdiction, and the Patent Laws: the Federal Circuit Holds that Two Wrongs Make a Right*, 17 Temp. Envtl. L. & Tech. J. 137, 157 (1999).

³⁰⁹ *Hunter Douglas*, 153 F.3d at 1337.

³¹⁰ Gutowski, *supra* note 307, at 158.

³¹¹ *Buckman Co., v. Plaintiffs’ Legal Comm.*, 531 U.S. 341, 350 (2001).

³¹² *Univ. of Colo. Found., Inc. v. Am. Cyanamid Co.*, 196 F.3d 1366, 1372 (Fed. Cir. 1999) (instructing the district court, upon remand, to apply “federal patent law principles to determine” inventorship).

Lockwood-type tort claims are already so dependent on patent law principles that there is little danger of state interference in patent doctrine. The probable cause element of malicious prosecution, for instance, would hinge in such cases on the patent law question of whether a “reasonable examiner” would have found an SNQ over the prior art in the absence of any misrepresentations by the requester.³¹³ Nor is the Federal Circuit’s “reasonable examiner standard” for finding an SNQ especially distant from the standard for probable cause in malicious prosecution, which boils down to whether “any reasonable attorney would have thought the claim tenable.”³¹⁴

In *Lockwood*, the district court held his malicious prosecution claim to be preempted by federal patent law,³¹⁵ citing *Buckman v. Plaintiffs’ Legal Committee* for the proposition that “[p]olicing fraud against federal agencies is hardly a field which the States have traditionally occupied.”³¹⁶ The district court did not identify a specific conflicting statute, but apparently accepted Sheppard Mullin’s comparison of the PTO’s “regulatory scheme” to that of the FDA in *Buckman*, most importantly the statute by which the “PTO is empowered to investigate suspected fraud.”³¹⁷ Certainly it was this statute which was the focus of attention on appeal before the Federal Circuit. At oral argument, Judge Plager twice read it aloud, and opined that the FDA and PTO were invested with “quite parallel powers to detect and punish for fraud or misrepresentation.”³¹⁸ Yet the PTO has on numerous occasions expressly disavowed an intention to police itself for fraud or inequitable conduct, preferring to leave these matters for the courts to decide.³¹⁹ For instance, in 1988 PTO Commissioner Donald Quigg

³¹³ *Lockwood v. Sheppard, Mullin, Richter & Hampton*, 93 Cal. Rptr. 3d 220, 228 (Ct. App. 2009) (citing *Proctor & Gamble Co. v. Kraft Foods Global, Inc.*, 549 F.3d 842, 848 (Fed. Cir. 2008)).

³¹⁴ *Jarrow Formulas, Inc. v. Lamarche*, 74 P.3d 737, 747 (Cal. 2003) (quoting *Sheldon Appel Co. v. Albert & Olike*, 765 P.2d 498, 511 (Cal. 1989)).

³¹⁵ See *Lockwood v. Sheppard, Mullin, Richter & Hampton, LLP*, No. 09-CV-5157, slip op. at 8 (C.D. Cal. Nov. 24, 2009).

³¹⁶ *Buckman*, 531 U.S. at 347.

³¹⁷ Reply Memorandum in Support of Defendants’ Motion to Dismiss at 9, *Lockwood v. Sheppard, Mullin, Richter & Hampton, LLP*, No. 09-CV-5157 (C.D. Cal. Nov. 02, 2009).

³¹⁸ See Digital Recording of Oral Arguments, *Lockwood v. Sheppard, Mullin, Richter & Hampton, LLP*, available at <http://oralarguments.cafc.uscourts.gov/Audiomp3/2010-1189.mp3>.

³¹⁹ See *Stewart Sys., Inc. v. Comm’r of Patents & Trademarks*, No. 86-1164-A, 1986 U.S. Dist. LEXIS 17716, at *8 (E.D. Va. 1986) (“The Commissioner argues further that the Patent and Trademark Office is not suited to consider issues of fraud during reexamination. The Patent and Trademark Office does not conduct evidentiary hearings in connection with the proceedings, and would not be able to observe the demeanor of witnesses or hear testimony in determining whether fraud had occurred.”); see also *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, 116 F.R.D.

issued a notice to this effect, stating that “determination of inequitable conduct issues requires an evaluation of the intent of the party involved,” and “[t]he Office is not the best forum in which to determine whether there was an ‘intent to mislead.’”³²⁰ Commissioner Manbeck also implied that the PTO would follow the courts regarding determinations of fraud, explaining:

We would like to change the rule so we don’t get into intent issues, and thereby eliminate what is referred to as the ‘fraud squad.’ A Commissioner’s Notice issued by Don Quigg has already done that on a [sic] interim basis and we hope to regularize that action in an amended Rule. However, having said this, I should make it clear – the PTO must act in accordance with the Court decisions on inequitable conduct and will retain its inherent authority to reject for a violation of the duty to disclose where that violation is admitted in the record or is proven beyond peradventure. For example, in a patent held unenforceable by a Court for a violation of a duty to disclose, the PTO could not allow a reissue which attempts to distinguish the patent over the withheld art.³²¹

Thus the PTO later clarified that it would not address issues of fraud or inequitable conduct, “‘except in the most egregious cases,’ such as when a court has made a final ‘decision that inequitable conduct has occurred.’”³²² In 1997, the PTO simply stated that “the Office no longer investigates fraud and inequitable conduct issues.”³²³ Most recently, the PTO has argued that misconduct should not “simply be referred to the [OED] for potential agency disciplinary action” since, inter alia, “the agency is constrained in its ability to investigate ‘fraud on the PTO’ because OED cannot issue subpoenas during their investigations.”³²⁴

Some have commented approvingly on this long-standing policy, arguing that since PTO examiners are primarily technical specialists rather than lawyers, it is desirable

533, 545 (N.D. Ca. 1987) (“[A]pparently the only place a challenger could press such a fraud claim would be in federal court, not in the PTO itself.”).

³²⁰ 1095 Off. Gaz. Pat. & Trademark Office 12, 16 (October 11, 1988).

³²¹ Harry F. Manbeck, Jr., *Entering Our Third Century*, 72 J. Pat. & Trademark Off. Soc’y 1177, 1180 (1990).

³²² David Hricik, *Wrong About Everything: the Application by the District Courts of Rule 9(b) to Inequitable Conduct*, 86 Marq. L. Rev. 895, 901 (2003) (citing Duty of Disclosure, 56 Fed. Reg. 37,321, 37,323 (Aug. 6, 1991) (to be codified at 37 C.F.R. pt.1, 10)).

³²³ 62 Fed. Reg. 53131, 53165 (Oct. 10, 1997).

³²⁴ Brief for The United States as Amicus Curiae on Rehearing En Banc in Support of Neither Party at 16, *Therasense, Inc. v. Becton, Dickinson & Co.*, Nos. 2008-1511, -1512, -1513, -1514, and -1595, 2010 U.S. App. LEXIS 9549 (Fed. Cir. 2010).

that the PTO leave determinations of fraud and inequitable conduct to the courts.³²⁵ Other scholars have argued on the contrary that, in view of *Buckman*, the PTO “should have the primary responsibility to police against fraud in its administrative processes.”³²⁶ Yet whatever one’s view of the issue, the point is that the PTO presently does *not* have the primary responsibility in policing itself against fraud.³²⁷ Clearly, then, *Buckman* is inapposite to the PTO context and should not have been mechanically applied to preempt *Lockwood*-type tort claims.

At oral argument in *Lockwood*, Judge Plager found it “a little difficult to distinguish [the *Buckman* preemption] analysis from the PTO problem” merely on the grounds that “the PTO doesn’t think it ought to do what the statute compels it to do, which is to discipline people.”³²⁸ Now it is true that the PTO retains its ability to discipline practitioners, and to that extent may be said to “police” itself. Yet, unlike the FDA, the PTO has traditionally looked to the courts to rule on issues of fraud and inequitable conduct. The penalty for inequitable conduct by patent holders (unenforceability of the patent) has long *coexisted* with the PTO’s ability to discipline its own practitioners. How, then, could there be a conflict between a penalty for misconduct by third party requesters (here, state tort liability) and the PTO’s ability to discipline the attorneys who file such requests? Moreover, there is scarcely any discernable difference between the issues raised by *Lockwood*-type tort claims and allegations of inequitable conduct. The distinction is utterly formalistic: if inequitable conduct were not formally a defense to a *federal* cause of action (patent infringement), litigants would undoubtedly

³²⁵ See Harold C. Wegner, *Patent Simplification Sans Patent Fraud*, 20 AIPLA Q.J. 211, 218 (“[W]hile a premium is paid for scientific background, law training [among patent examiners] is actively discouraged. This creates an examiner corps that is well equipped to search and technically examine patent applications, but one that is entirely unsuited for consideration of complex equity doctrines such as patent fraud. Skills in application of equity principles and other aspects of lawyering are uniquely required for the fair administration of any practice having an underpinning in a case law doctrine as complex as patent fraud. Yet, the Patent Examiner corps of the 1990’s is uniquely unsuited to such a complex legal exercise Whereas thirty years ago virtually 100% of the career Patent Examiners were lawyers, today the number in each examining group is more likely to be between 5% and 10%.”).

³²⁶ Arti K. Rai, *Growing Pains in the Administrative State: the Patent Office’s Troubled Quest for Managerial Control*, 157 U. Pa. L. Rev. 2051, 2079 (2009).

³²⁷ See Janis, *supra* note 61, at 54-55 n.237 (“Inequitable conduct, another frequently invoked defense, also falls outside of the reach of reexamination. . . . However, inequitable conduct is not considered in original examination, either.”), citing *In re Lanham*, 1 U.S.P.Q.2d (BNA) 1877 (Comm’r. Pat. 1986) (inequitable conduct will not be considered in reexamination). *Lanham* of course stands for the slightly different proposition that inequitable conduct on the part of patent holders is beyond the scope of reexamination, but the general point remains that the PTO does not provide a remedy to patent holders subject to fraudulent reexamination proceedings.

³²⁸ See Digital Recording of Oral Arguments, *supra* note 317.

apply the *Buckman* framework to preempt courts from deciding issues of misconduct before the PTO, saddling the Office with the sole responsibility for policing fraud before it—a responsibility it has repeatedly said it does not want. Indeed, though Judge Prost appeared adamant that Lockwood’s claims were preempted, she also seemed aware of the awkwardness of grafting *Buckman*’s preemption analysis onto this context, given the fact that courts have traditionally policed fraud on the PTO and *Hunter Douglas* specifically allowed state torts to proceed when based on a patent holder’s fraud on the PTO. As Judge Prost asked counsel for the defendants:

So what do we do with *Hunter Douglas*, assuming it’s not just dicta or, and [sic] our cases that include a sham exception? Are you trying to limit those to the inequitable conduct rubric, and if so, how do you, what’s the basis for that distinction?³²⁹

The *Buckman* framework does not sit easily with the Federal Circuit’s preemption precedents or its longstanding inequitable conduct jurisprudence. Indeed, in one Supreme Court case which revisited *Buckman* preemption, the petitioners pointed to the PTO as an example of a federal agency which does not have exclusive responsibility for matters of fraud before it because of the inequitable conduct doctrine.³³⁰ Although one could form the impression from oral arguments that Judges Plager and Prost were viscerally in favor of preemption, the difficulty alluded to by Judge Prost may have been one reason why the panel chose not to grapple with the preemption issue in a precedential opinion, preferring to dispose of the case by summary affirmance.

Judge Newman seemed, for her part, particularly reluctant to accept the reasoning suggested by *Buckman* and focused on the fact that state bars routinely exercise reciprocal discipline over patent practitioners for misconduct before the PTO,³³¹ saying:

We see when there has been a finding or ruling of inequitable conduct through a routine patent action, that that then is followed by a state court disciplinary action in the state courts or within the state bar proceedings. So that there is no question but that, if the Office goes as far as it can, whether or not it finds that there is a basis for some kind of disciplinary action within the limits of the actions, the remedies, available to the Patent

³²⁹ *Id.*

³³⁰ See Brief for Respondents at 26-27, *Warner-Lambert Co. v. Kent*, 552 U.S. 440 (2008) (No. 06-1498).

³³¹ See *Kroll v. Finnerty*, 242 F.3d 1359, 1365 (Fed. Cir. 2001) (finding state bar discipline of practitioner for misconduct before the PTO was not preempted, stating that “the State maintains control over the practice of law within its borders except to the limited extent necessary for the accomplishment of federal objectives”); see also, e.g., *People v. Bode*, 119 P.3d 1098 (Colo. O.P.D.J. 2005) (imposing reciprocal discipline against attorney found to have made misrepresentations before the PTO).

Office, that that isn't necessarily the end when there is actual fraud, actual sham litigation, even though the Patent Office has no authority to go as far as to provide remedies for such actions. But here we are in the district court, so why is the district court precluded from considering those issues? . . . That's what I don't understand. If in fact one could, if this petitioner could go back to a state court after this is over, from the Patent Office, and here we are in the district court, in the federal system, why is that court precluded from considering all issues that can properly be raised against these defendants?³³²

Why this considerable reluctance to reach a finding of preemption was not found to merit elaboration or rebuttal in a written opinion is hard to determine. Left unanswered by the court's summary affirmance is whether Congress, whose "purpose . . . is the ultimate touchstone in every preemption case,"³³³ could possibly have intended to give patent holders a layer of protection against harassment in the form of the SNQ requirement, and yet to deprive them of state tort remedies in the event that this protection should fail. It is my view that this notion is as absurd as the finding of preemption which flows from it. If anything, the SNQ requirement is an indication that Congress did not believe the PTO's disciplinary authority to be sufficient to protect patent holders in reexamination, and certainly does not suggest that Congress intended that authority to *prevent* patent holders from obtaining relief.³³⁴

Finally, apart from its questionable application of *Buckman*, the district court's preemption holding in *Lockwood* also relied on *Abbott*, a case in which a claim for abuse of process based on inequitable conduct during an interference proceeding was found to be "an inappropriate collateral intrusion on the regulatory procedures of the PTO,"³³⁵ and an impermissible alternative state law remedy. But whereas PTO procedures (at least at the time of *Abbott*, circa 1991) have provided a remedy for inequitable conduct during an interference proceeding (i.e., the patent was awarded to the side with clean hands), there is no federal remedy whatsoever to be sought by the patent holder subject to unwarranted reexamination proceedings. In *Lockwood*, the plaintiff's tort claims were not an alternative remedy but his *only* recourse. And "while it is true that the 'misconduct' underlying [plaintiffs'] claims also constitutes a violation of federal regulations"—since *Lockwood* alleged violations of various federal regulations by the third party requester—

³³² See Digital Recording of Oral Arguments, *supra* note 317.

³³³ *Altria Group, Inc. v. Good*, 129 S. Ct. 538, 543 (2008) (citation omitted).

³³⁴ The SNQ requirement of 35 U.S.C. § 303 post-dates, of course, the generalized grant of disciplinary authority codified as 35 U.S.C. § 32 in the Patent Act of 1952. See P.J. Federico, *Commentary on the New Patent Act*, 75 J. Pat. & Trademark Off. Soc'y 161, 173 (1993).

³³⁵ *Abbott Labs. v. Brennan*, 952 F.2d 1346, 1357 (Fed. Cir. 1991).

“the suit was brought to vindicate plaintiffs’ rights, not the” PTO’s.³³⁶

The PTO, through its Office of Enrollment and Discipline (hereinafter “OED”) is without power to award civil damages; the most it can do is to require a disciplined patent attorney to “return unearned practitioner fees or misappropriated client funds,”³³⁷ neither of which can make whole the patent holder subject to unwarranted reexamination. State law torts can compensate patent holders for harms suffered; the OED can do no more than sanction patent practitioners for violations of federal regulations.³³⁸ The two functions are distinct and without conflict.

2. Balancing *Lockwood*-type Claims with the Rights of Requesters

Much of this paper has been devoted to showing that sham petitioning in the reexamination context can undermine the patent incentive and is thus contrary to the public policy underlying the patent system. Yet one might reasonably worry whether imposing tort liability for such conduct might not unduly chill the legitimate use of the reexamination process. After all, one objective of the patent system is to ensure, via its “stringent requirements for patent protection . . . that ideas in the public domain remain there for the free use of the public.”³³⁹ Reexamination is one mechanism by which invalid and overbroad patents can be kept from impinging on ideas already in the public domain, and any chilling of the process could be construed as an “obstacle” to Congressional objectives, meriting preemption of state torts.

Yet *Hunter Douglas* has subjected patent holders to tort liability under certain circumstances, despite compelling arguments that tort liability could undermine the right of patent holders to enforce their property rights and threaten suit. Placing limits beyond which patent holders might wander into tort liability raises, to my mind, a weightier question of preemption than that presented in *Lockwood*. Imposing limitations on the patent holder’s right to notify others of infringement undeniably diminishes a patent’s value, and, in weakening the incentive for invention and disclosure, conflicts to some

³³⁶ *Cornett v. Johnson & Johnson*, 998 A.2d 543, 564 (N.J. Super. A.D. 2010) (applying this reasoning to find plaintiffs’ failure-to-warn claim had satisfied *Buckman*’s test for avoiding implied preemption).

³³⁷ 37 C.F.R. § 11.20(b) (2010).

³³⁸ Although the duty of candor to the PTO extends to all parties filing papers before it (including non-lawyer requesters) (*see supra* note 41), it is not clear that the OED has power to impose meaningful sanctions on requesters. 35 U.S.C. § 32 would seem to empower the PTO to do no more than “suspend or exclude” such a requester “from further practice” before it.

³³⁹ *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979).

degree with these twin objectives of the patent system.³⁴⁰ Despite all this, *Hunter Douglas* did not preempt tort claims against patent holders, but rather imposed additional pleading requirements.

In *Lockwood*-type claims, where the case for preemption is much weaker, the Federal Circuit could impose additional requirements in the vein of *Hunter Douglas* to protect the rights of good faith requesters. Further, the court could follow a course parallel to that of *Handgards, Inc. v. Ethicon, Inc.*,³⁴¹ erecting a higher standard of proof for such tort liability. In *Handgards*, the court sought “to prevent frustration of patent laws by the long reach of antitrust laws.”³⁴² However, the solution was not to deny antitrust liability, but rather “to erect such barriers to antitrust suits as are necessary to provide reasonable protection for the honest patentee who brings [a legitimate] infringement action.”³⁴³ Thus *Handgards*, finding “that a patentee’s infringement suit is presumptively in good faith,” required that “this presumption can be rebutted only by clear and convincing evidence” before antitrust liability could be imposed.³⁴⁴ Similarly, then, to prevent frustration of the reexamination process by the specter of tort liability, the Federal Circuit could erect a higher standard of proof for *Lockwood*-type claims, requiring clear and convincing evidence of bad faith on the part of requesters.³⁴⁵

However concerned one may be about chilling the legitimate use of the reexamination process, it hardly seems fair to devise one rule for patent holders and another for requesters. Filing patent infringement litigation in bad faith has been found to “offend[] public policy” and give rise to state tort liability.³⁴⁶ Courts should now recognize that instigating baseless reexamination proceedings in bad faith is equally offensive to public policy, and should expose requesters to tort liability. Preempting *Lockwood*-type torts not only erects a double-standard for requesters, but is itself contrary to public policy, as it immunizes requesters from liability for misconduct before the PTO, and leaves patent holders vulnerable to unjust attacks without means of redress.

³⁴⁰ *Id.* at 262 (“First, patent law seeks to foster and reward invention; second, it promotes disclosure of inventions to stimulate further innovation and to permit the public to practice the invention once the patent expires.”).

³⁴¹ 601 F.2d 986 (9th Cir. 1979). In the ensuing paragraph, I rely on the Federal Circuit’s approving analysis of *Handgards*, to be found in *Loctite Corp. v. Ultraseal, Ltd.*, 781 F.2d 861, 876 (Fed. Cir. 1985).

³⁴² *Handgards*, 601 F.2d at 996.

³⁴³ *Id.*

³⁴⁴ *Id.*

³⁴⁵ Obviously this is compatible with the showing of “fraud on the PTO . . . or bad faith in the marketplace” required by *Hunter Douglas* to escape preemption. *Hunter Douglas Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1337 (Fed. Cir. 1998).

³⁴⁶ *Mirafi, Inc. v. Murphy*, 18 U.S.P.Q.2d (BNA) 1087, 1088 (Fed. Cir. 1991).

3. The PTO is Dependent on the Requester's Candor

The district court also dismissed Lockwood's malicious prosecution claim under California's independent investigation rule, which bars suit where the proceeding at issue is initiated after an independent investigation of the defendant's charges by the responsible authorities.³⁴⁷ However, given the PTO's propensity to "parrot" the language of the requester, together with the MPEP's direction that "in a simple case, the examiner may adopt the reasons provided by the requester in the discussion of the substantial new question of patentability,"³⁴⁸ there is a serious question as to whether the PTO's determination regarding the request can be said to constitute an "investigation" of the charges made by the requester.³⁴⁹ More fundamentally, the court's ruling fails to recognize the extent to which any "investigation" of a request—at least during the period in which the PTO decides whether to grant or deny it—is dependent on the representations of the requester, and thus cannot be deemed "independent" within the meaning of that term of art in California precedent.

For example, the PTO relies on the information presented to it regarding the date and public accessibility of purported prior art references.³⁵⁰ The references submitted may in fact carry a different date than those proffered by the requester, or they may be unavailable to the public (e.g., confidential manuals) despite being held out as publications.³⁵¹ It is evident that the PTO is equally as dependent on reexamination requesters' duty of candor as it is on patent applicants to submit accurate translations of

³⁴⁷ See *Lockwood v. Sheppard, Mullin, Richter & Hampton, LLP*, No. 09-CV-5157, slip op. at 9-10 (C.D. Cal. Nov. 24, 2009) (citing *Werner v. Hearst Pub'ns Inc.*, 65 Cal. App. 2d 667 (1944)).

³⁴⁸ MPEP, *supra* note 129, § 2246, at 2200-62.

³⁴⁹ Cf. MPEP, *supra* note 129, § 2246, at 2200-63 ("In the decision on the request, the examiner will not decide, and no statement should be made as to, whether the claims are rejected over the patents and printed publications."); *Ex parte Wikdahl*, 10 U.S.P.Q.2d (BNA) 1546, 1547 (PTO Bd. Pat. App. & Interf. 1989) ("The grant of the request is a procedural matter which merely triggers the reexamination proceeding, and is not a substantive determination regarding the validity of the patent.").

³⁵⁰ See David A. Lowin, *Comment: Reexamination "Catch 22,"* 14 AIPLA Q.J. 218, 223 (1986) (noting "examiner's inability" to make rebuttals to claims that references submitted in reexamination are of "printed publication status" and suggesting the "submission of an authenticating affidavit or declaration . . . at least for any publication that is not a well-recognized periodical").

³⁵¹ See Complaint at 16-17, *Lockwood v. Sheppard, Mullin, Richter & Hampton, LLP*, No. 09-CV-5157 (C.D. Cal. July 15, 2009).

the relevant portions of foreign prior art references.³⁵² In the Zilog reexamination discussed *supra*, the PTO adopted the translation of the prior art provided to it by the requester, which was only corrected later by the patent holder.³⁵³ Moreover, courts have recognized the possibility that characterizations of prior art may be so misleading that they constitute inequitable conduct, even where the prior art was before the examiner.³⁵⁴ At times in its history, the PTO has even been so reliant on the requester that, in instances when the PTO was unable to locate the patent file history, the PTO would rely on the requester's reconstruction of the file.³⁵⁵

It is therefore clear that, at the determination stage of reexamination, the PTO does not conduct an investigation independent of the requester's duty of candor, and the district court's dismissal of the malicious prosecution claim in *Lockwood* was not cognizant of these realities.

V. LEGISLATIVE AND POLICY PROPOSALS

A number of reforms would serve to mitigate the weaknesses of the current reexamination process and protect patent holders from harm when safeguards fail. First, as part of its overall effort toward patent reform, Congress should create a federal cause of action for patent holders subject to unwarranted reexamination proceedings. Although, as argued above, the common law tort of malicious prosecution is the best remedy in the absence of a federal cause of action, a slight disadvantage is its lack of uniformity. However, the disadvantage is not the impact that tort law might have on patent doctrine, which I believe would be minimal, but rather that the remedy might not be available to patent holders in all jurisdictions: the tort of malicious prosecution has not

³⁵² See, e.g., *Semiconductor Energy Lab. Co. v. Samsung Elecs. Co.*, 204 F.3d 1368, 1377 (Fed. Cir. 2000) (holding that patentee, by submitting a one-page, partial translation of a 29-page Japanese reference "deliberately deceived the examiner into thinking that the Canon reference was less relevant than it really was, and constructively withheld the reference from the PTO").

³⁵³ See *supra* Section III.D.1.

³⁵⁴ See *supra* note 103 for cases; see also Lisa Dolak, *As If You Didn't Have Enough to Worry About: Current Ethics Issues for Intellectual Property Practitioners*, 82 J. Pat. & Trademark Off. Soc'y 235, 242 (2000) (referring to "misrepresentations that are per se material because the examiner has no alternative but to rely on them").

³⁵⁵ See Tegtmeyer, *supra* note 103, at 217 ("The Office also wanted to ensure that the requests were as complete as possible in the event a patent file could not be located as rapidly as necessary to make the determination within the time required by statute. In such event the determination could be made on the basis of the complete request while locating or, if necessary, reconstructing the patent file.").

been extended to administrative proceedings in all states.³⁵⁶ A federal cause of action would be free of these disadvantages and commensurate with the need for uniformity in the patent system.

Second, some have advocated that the fee for reexamination be raised to provide for a “bond”³⁵⁷ that would be used to defray all or some of the patent holder’s attorney’s fees³⁵⁸ in the event that the validity of his patent is confirmed.³⁵⁹ This would have the effect of discouraging “the abuse that [it] was the objective of the reexamination order phrase”³⁶⁰ to prevent, and would provide some compensation to patent holders who may not have been subject to a reexamination in which fraud was involved, but were still forced to expend significant resources to defend their patent’s validity. Wegner has suggested a tiered approach to the bond, which distinguishes between the less meritorious requests for which the entire bond would be awarded to the patent holder, and the “close calls” (signaled, perhaps, by the necessity of an appeal to the BPAI), for which only a portion of the bond would be applied to the patent holder, the remainder retained by the Office.³⁶¹ This proposal is consonant with concerns raised while early forms of reexamination were being proposed and discussed in Congress, when there was such apprehension about the costs to be borne by patent holders during the course of such proceedings that it was even suggested that patent holders be given access to representation by “public defender[s].”³⁶² While I do not call for patent holders to be defended at the public’s expense, a bond posted by third party requesters would surely

³⁵⁶ However there may be some basis to file these claims in the District of Columbia, where the tort has long been extended to administrative proceedings, because reexamination proceedings occur there. *Cf. Competitive Techs. v. Fujitsu Ltd.*, 286 F. Supp. 2d 1118, 1157-58 (N.D. Cal. 2003) (“[I]t is presumed that the law of the state where the injury occurred controls unless it is shown that another state has a more significant relationship to the occurrence or the parties. Applying this rule, many courts have held that abuse of process and malicious prosecution claims are governed by the law of the state where the proceeding complained of occurred Here, the law of the District of Columbia – where the ITC proceeding occurred – should be applied.”).

³⁵⁷ See Wegner, *supra* note 147.

³⁵⁸ See Zandy, *supra* note 51, at 889 n.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.”).

³⁵⁹ *Cf. Huron*, *supra* note 32, at 28 (referring to “new provisions requiring proof by the claimant of the probable validity of the claim and allowing the court to require a bond from the claimant” in an effort to mitigate the abuse of *lis pendens* in constructive trust claims).

³⁶⁰ See Wegner, *supra* note 147, at 286.

³⁶¹ *Id.*

³⁶² See Janis, *supra* note 61, at 29.

lessen number of cases in which inventors “give up” on their patents.

Third, in light of the effects of reexamination on a patent holder, a reduction or deferral of patent maintenance fees during reexamination proceedings would seem in order. Besides being deprived of the economic benefits of his patent and forced to bear the costs of defending it, patent holders are (somewhat perversely) required to pay maintenance fees to the PTO. Such fees are not required for patents which have expired, of course; yet a patent undergoing reexamination is closer in character to an expired patent (though with the prospect of resuscitation, to be sure) than to a patent presumed valid and in force. Moreover, a temporary deprivation of maintenance fees is a (small) incentive for the PTO to carry out the reexamination process with special dispatch. Any consequent loss of revenue should be replaced by raising the fee for processing reexamination requests—to say nothing of the consensus views that PTO fees need to be raised across the board to support this grossly underfunded agency.

Fourth, the identity of the requester should be disclosed, if not to the patent holder, then to the PTO. Current rules governing *ex parte* reexaminations have no requirement that the requester disclose his identity or even that the request be submitted by a member of the patent bar—a loophole that would seem to encourage fraud, and which would certainly complicate the efforts of a wronged inventor to seek compensation from an anonymous requester in court. Although most requesters seeking reexamination do identify themselves on the request, to allow them to escape liability for wrongdoing merely by failing to disclose the real party in interest is unacceptable.³⁶³

Fifth, as some have argued,³⁶⁴ serious consideration should be given to restoring the presumption of validity in reexamination. This would shift the burden in practice from the patent holder to the requester, and might serve to discourage the PTO from issuing first office actions that essentially parrot the requester’s allegations of invalidity. It might also lessen the extent to which a patent’s enforceability is undermined by reexamination proceedings. As Judge Nies argued while dissenting from the majority in

³⁶³ Noting that *inter partes* reexamination procedures do require the disclosure of the requester’s identity, Janis pointed out that while this “may be thought to serve an anti-harassment function by forcing the third-party requester into the open . . . the requirement may fall hardest on small players, the very group that deployed the harassment rationale most volubly during the legislative debate.” Janis, *supra* note 161, at 489. Essentially the objection is that disclosure of the requester’s identity would prevent small companies from “testing” the patents of their larger competitors through reexamination without fear of reprisal through an infringement lawsuit. It is true that disclosure would “tip off” patent holders about their competitors’ possible infringement, but on the other hand, it is very unlikely that the requester would have to fear an infringement lawsuit, at least while the patents in question were under reexamination. And if the patent should be held valid at the conclusion of reexamination, then the outcome of the “test” will be clear and the requester can purchase a license to the technology.

³⁶⁴ See Conger *supra* note 53, at 560 (“[T]he statutory presumption of validity must apply during reexamination.”); see also Edmund J. Fish, *Examining the Federal Circuit’s Position on the Presumption of Validity During Patent Reexamination*, 32 Wayne L. Rev. 1405, 1433-38 (1986) (arguing that the presumption of validity must be applied to patents during reexamination and that failure to do so violates a patent holder’s right to procedural due process).

Etter: “The statutory provision in 35 U.S.C. § 282 is absolute: *a patent shall be presumed valid . . . [and] [n]othing in the reexamination chapter, 35 U.S.C. §§ 301-307, states otherwise.*”³⁶⁵

Sixth, the SNQ standard should be given a more rigorous construction by the Federal Circuit, and PTO procedures that serve as a “diversion of the statutory purpose”³⁶⁶ of this threshold requirement should be struck down. While some thoughtful scholars have criticized past efforts by the Federal Circuit to do just this, suggesting that “judicial resources are [thereby] misspent fleshing out the delicate nuances of ‘newness’ rather than addressing claim validity over the prior art,”³⁶⁷ the problems of fraud and harassment in reexamination would seem to demand greater judicial attention to the threshold safeguard.³⁶⁸ Alternatively, Congress itself could devise more stringent statutory guidelines that could be applied to curtail unwarranted proceedings, raising the standard from an SNQ to, e.g., a “material reason” for reexamination.

VI. CONCLUSION

Fraud and misconduct may be perpetrated by third party requesters in reexamination just as easily as by patent applicants. In view of the devastating effect such misconduct can have on patent holders and, indeed, on the patent system itself, further efforts should be made to study the issue, to provide adequate safeguards against it, and to fashion satisfactory remedies when those safeguards fail. This article is offered as a first step in that direction.

³⁶⁵ *In re Etter*, 756 F.2d 852, 860 (Fed. Cir. 1985).

³⁶⁶ *Patlex II*, 771 F.2d 480, 487 (Fed. Cir. 1985).

³⁶⁷ *Janis*, *supra* note 61, at 60.

³⁶⁸ *Janis* has elsewhere suggested that the threshold be raised, arguing that if reexamination is conceived of as a “curative mechanism” (a characterization he admittedly does not favor), “it might make sense conceptually to insist on a threshold showing of a probable new and significant error to obtain jurisdiction.” *Janis*, *supra* note 161, at 487 n.27; *see also* Maghame, *supra* note 19 (recommending “a higher threshold than the current SNQ standard for a reexamination proceeding to be initiated”).