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A Case For Strategic Use Of Re-Examination

Law360, New York (July 23, 2009) -- Evident Technologies (Evident), one of New York State's first nanotech companies, has filed for bankruptcy after being sued for patent infringement.[1]

According to the source, Evident states that mounting legal fees associated with an ongoing patent suit over Evident's quantum dot products had forced it to file for Chapter 11 bankruptcy after efforts to refinance its debt outside of bankruptcy failed.[2]

Notably, Evident's patent counsel in the case is listed in court documents[3] as one of the company's largest creditors, with \$951,184.88 owed in attorneys' fees.

Wondering how your nanotech company can avoid going bankrupt when faced with high costs of a patent infringement suit? The points below provide helpful strategies for small- to mid-sized nanotech companies.

Defendant's Use of Re-Examination

One strategy is to use the inter partes re-examination proceedings at the U.S. Patent and Trademark Office to attempt to invalidate the asserted patent.

Depending on the facts of the particular case, the patent litigation is often stayed by the courts to await the outcome of the re-examination. While inter partes re-examination is expensive, it is much less expensive than patent litigation in the district court.

Further, inter partes re-examination continues to provide a higher patent "kill" (i.e., invalidation) rate (60 percent) than district court litigation (33 percent).[4]

However, it is important to note that a large number (50 percent) of the hotly contested re-examinations filed during this period are still pending and have yet to receive final court decisions.

Of the 73 issued re-examination certificates, 60 percent (44) cancel all the claims and only 12 percent (9) confirm all the original claims as patentable. The remaining 27 percent (20) change the claim set in some way.

For the 19 inter partes re-examination certificates issued on patents with co-pending litigation, 42 percent (eight) resulted in all claims being canceled; five percent (one) confirmed all claims as patentable; and 53 percent (10) changed the claim set in some fashion.[5]

The fact that the total number of inter partes re-examinations has more than doubled in the past year — 73 issued re-examination certificates to date as opposed to only 30 certificates as of August 2008 — illustrates the growing popularity of this strategy.[6]

Of course, the main point about inter partes re-examinations is that the process can be incredibly slow if either party pushes.

Only about 50 percent of the inter partes re-examinations filed in 2001 through 2005 have been completed, either through issuance of a re-examination certificate (on the merits) or procedurally terminated.

Overall, the re-examination certificates took an average of 37.5 months to issue (median of 34.4 months). When all is said and done, this pendency will be much longer since the slow and/or hotly disputed cases are all still pending.

Only one of the completed cases received a Board of Patent Appeal and Interferences (BPAI) decision (all claims were canceled after BPAI affirmed), and no completed cases have received a court decision.[7]

Patent Owner's Use of Re-Examination

Patent owners also can use re-examination to preempt a validity challenge by a defendant in district court, thus decreasing litigation costs.

Filing an ex parte request for re-examination during litigation can help eliminate an opponent's invalidity arguments based on printed publications and patents.

In some cases, where the defendant's only defense is prior art, filing a re-examination can even permit a settlement to occur pending outcome of the re-examination, and it can be a very cost-effective way to resolve prior art invalidity issues.

However, there are certain risks that a patent owner needs to consider carefully.

First, a successful re-examination does not necessarily eliminate a prior art defense.

While courts have found that a re-examined patent enjoys a "heightened presumption" of validity over the particular prior art considered in the re-examination, there are some

cases where a court nevertheless found that a patent was invalid over a prior art reference that had been considered during a re-examination.

Second, a re-examination cannot be stopped once it is started. Even if the parties settle their litigation, the USPTO may continue its re-examination until the issues presented in the request are resolved.

Third, a re-examination may cause some or all of the litigation to be stayed. Even if the patent owner does not request a stay, the defendant may request it or the court may order it after learning about the re-examination.

Fourth, a re-examination may cause some or all of the claims in the patent to be amended or new claims to be added, which raises the possibility of "intervening rights."

If an original claim in a re-examination is found patentable and confirmed, then there are no intervening rights. But if the patent owner is forced to amend the claims or chooses to add new claims in order to overcome a rejection, intervening rights may be found as to those amended or new claims.

The doctrine of intervening rights is somewhat hard to predict, but it can lead to a compulsory license where the court permits an infringer to continue infringing provided a certain royalty is paid.

Fifth, an unsuccessful re-examination could lead to invalidity of all claims in the patent. Once the defendant in the lawsuit learns about the re-examination filed by a patent owner, the defendant can file its own request and present more focused arguments of invalidity.

If the patent in question is eligible, the defendant may file an inter partes re-examination, allowing participation by the requester.

Whether the proceeding is ex parte or inter partes, the patent owner can and should rely on expert declarations to overcome rejections and present evidence of patentability.

The patent owner also should be aware that the evidentiary standard used by the USPTO for determining patentability is the "preponderance of the evidence" standard (not the "clear and convincing standard used by the court in litigation) and that the USPTO will give the claims its "broadest reasonable" interpretation.

Sixth, because the duty of disclosure applies to re-examination, it is important for the patent owner to submit all prior art and arguments of unpatentability from the litigation.

For example, if there has been correspondence between the parties before litigation began in which the infringer alleges invalidity, such evidence should be submitted in addition to pleadings (such as the defendant's answer setting forth allegations of

invalidity) and any documents produced in litigation that relate to invalidity or unenforceability.

Failure to carefully comply with the duty of disclosure during a re-examination can lead to charges of inequitable conduct in the litigation by the defendant.

Seventh, there may be a risk that the USPTO will construe the meaning of the claims in a way that is harmful to the case of infringement in the litigation.

Therefore, it is important for the litigation team and the re-examination team to coordinate their efforts closely to minimize this risk and utilize arguments in the re-examination that are not harmful to the scope of the claims for infringement purposes.

Lastly, there may be a risk that re-examination could last a very long time, as noted in Section I. The patent owner should expect a duration of at least nine months if a re-examination is instituted.

On the opposite side, if there is an inter partes request filed by the defendant and appeals and petitions, then four years or even longer may be needed to resolve the issues.

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[1] Evident Technologies, The AmLaw Daily, July 8, 2009, amlawdaily.typepad.com/amlawdaily/2009/07/the-bankruptcy-files-1.html

[2] Evident Technologies files Chapter 11 bankruptcy petition, The Business Review, July 6, 2009, albany.bizjournals.com/albany/stories/2009/07/06/daily3.html

[3] Voluntary Petition, United States Bankruptcy Court, July 6, 2009, amlawdaily.typepad.com/files/evident-technologies-ch-11-filing.pdf

[4] Inter Partes Reexamination Statistics, PatentlyO, July 7, 2009, www.patentlyo.com/patent/2009/07/inter-partes-reexamination-statistics.html

[5] id.

[6] id.

[7] id.