

Defense Strategies in Patent Litigation

Avenues for Patent Invalidation



Patent litigation is recognized by many companies as a valuable tool to maintain exclusivity and thereby protect profit margins. The outcome of a patent litigation can have an enormous financial impact on the future of the parties involved in the suit. This, coupled with the advent of non-practicing entities, has resulted in a flurry of patent litigations in recent years. The total damages paid by defendants in patent litigations crossed the \$2 billion mark in 2007^[1]. In this scenario, corporations and their law firms face the need to formulate an effective strategy to tackle patent infringement accusations.

The corporations or the corresponding law firms typically employ defensive and offensive strategies to parry the infringement accusations. While the defensive strategy aims at proving non-infringement of the accused product, the offensive strategy tries to render the patent-in-suit invalid or unenforceable. Although both the strategies are generally pursued simultaneously, defensive strategy tends to be less effective in driving the defendants towards safer waters owing to the reasons discussed further.

Firstly, the litigation has to continue for a longer duration in order to get a judgment on non-infringement, which in turn implies higher litigation costs. On the other hand, the courts prefer to take up the question of invalidity at Summary Judgment stage which results in expedited judgment and hence, lesser litigation costs. Secondly, it might be difficult to prove non-infringement as the jury which decides on the infringement question may not be well acquainted with the technology disclosed in the patent. On the other hand, proving invalidity can be done through the patent office reexamination process, where a set of technically qualified examiners study and re-evaluate the patent.

In light of these factors, the process of establishing the invalidity of the patent-in-suit takes the center-stage from the defendant's perspective.

Invalidity Avenues

The U.S patent system has two avenues for challenging the validity of a patent. The first one is the courts and the other one is the patent office (USPTO).

Avenue 1: The Courts

The district courts provide an avenue where the defendant can challenge the validity of a patent under any statutory provision. For example, a patent may be challenged in a court based on the existence of relevant prior art, inequitable conduct, unenforceability due to social reasons, on-sale bar, public use etc. Besides, the courts also provide an opportunity for the defendants to depose an expert witness to testify on subjective matters like obviousness. Moreover, patent litigation in the court does not provide an opportunity for the patent owner to modify the claims.

The data depicted in Figures 1.1 & 1.2 illustrates the trend in number of invalidity decisions taken in the courts over the past 4 years. The data takes into account the invalidity decisions based on 35 U.S.C 102, 103, and 112 only. The data indicates that on an average, the defendants received favorable invalidity decisions in only about 40% of the cases. However, this figure stands at about 75% when all the statutory provisions (invalidity, unenforceability, non-infringement, and matter of law provisions) are taken into consideration^[2].

Although the courts form a good avenue to challenge the validity of a patent, there are certain factors which repel the parties from challenging the validity of patents in the courts. The major factor is the cost of the litigation. It is estimated that the average cost of patent litigation could reach 1.5 million dollars per party, making it a difficult option for small firms. Besides, initiating the patent invalidity process in a court can only be done through a counter-claim or a declaratory judgment, thus precluding a party from taking a preemptive action against a potentially threatening patent.

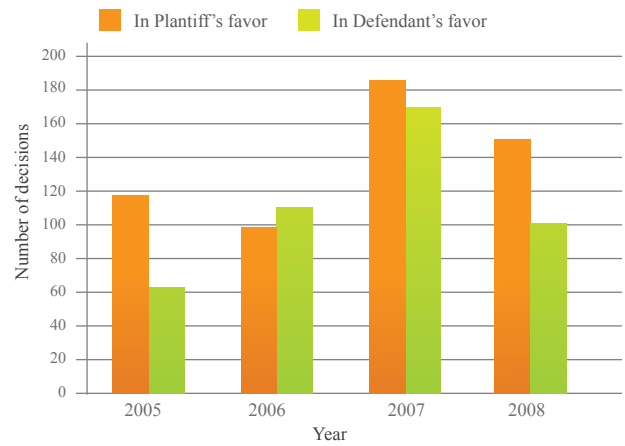


Fig 1.1: Court Decisions on Invalidity ^[2]

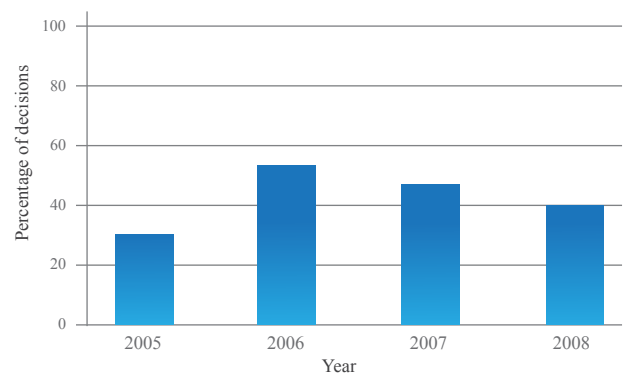


Fig 1.2: Percentage of Invalidity Decisions by Court in Defendant's Favor ^[2]

Another factor which makes the court a less favorable avenue is the decision making body. The decision making body in the courts, the jury and the judge, is generally not acquainted with the technology at hand. Hence the defense attorney must present the evidence in a simple, comprehensible fashion, which can be difficult in times.

Avenue 2 : The USPTO

In order to overcome the limitations posed by challenging the validity of a patent in a court, the US Congress introduced reexamination procedure in the USPTO in 1980. A third party can request reexamination of any patent issued by the USPTO if the "Substantial New Question" (SNQ) requirement is met. SNQ refers to any technical concept that the patent office might have overlooked at the time of examination. It also entails any earlier considered art presented in a "new light". About 10% of the reexamination requests are rejected by the patent office every year due to the lack of adequate SNQs. Hence, it behooves the defense attorneys to identify prior art that could constitute an SNQ(s) which is appropriate in technical as well as legal aspects.

Ex Parte and Inter Partes Reexamination

The US Congress introduced *ex parte* reexamination process in 1980 as a useful post-grant procedure to weed out ‘bad’ patents. Any third party can anonymously file for an *ex parte* reexamination any number of times. However, each time a reexamination request is filed, an appropriate SNQ has to be provided. After the request for reexamination is granted, the patent owner, followed by the reexamination requesting party, is given a chance to respond before the patent office delivers its decision regarding the invalidity. Due to the simplicity of the process, the *ex parte* reexamination ends within a short duration of time. However, the reexamination requesting party has very limited role to play in this process. Moreover, the patent owner may re-appeal any decision that is against its interests. Hence, this reexamination procedure might not sufficiently cater to the needs of interested third parties.

Owing to the insufficient role that is allowed for a third party in the reexamination process, another reexamination procedure, known as *inter partes* reexamination, was introduced in 1999. The *inter partes* reexamination allows repeated responses and rebuttals by the patent owner and the reexamination requester.

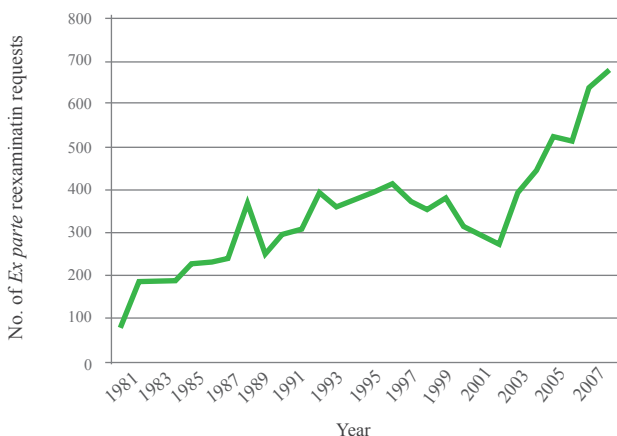


Fig 2.1: Ex Parte Reexamination Requests [3]

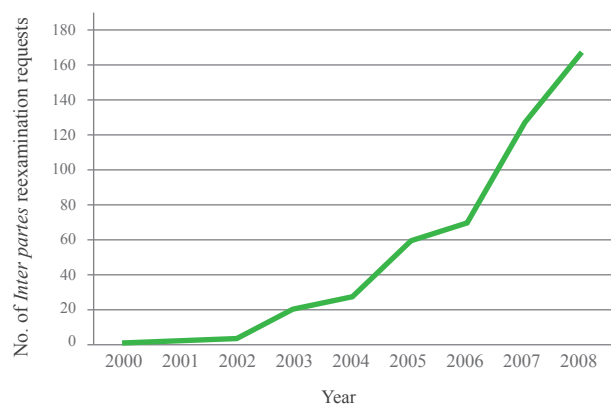


Fig 2.2: Inter Partes Reexamination Requests [3]

Due to this feature, the number of *inter partes* reexamination requests has been on a rise since its inception despite being fourfold more expensive than *ex parte* reexamination (Figures 2.1 & 2.2).

Although *inter partes* reexamination provides an opportunity for active participation, the parties requesting it should be wary of specific rules which, if neglected, might hamper the legal standing of the requesting party. The USPTO makes it necessary for the reexamination requester to identify itself as ‘real party in interest’. A ‘real party in interest’ can appeal for *inter partes* reexamination of a patent only once and the patent office makes it mandatory to provide all the possible SNQs at once. Moreover, a patent which successfully passes the *inter partes* reexamination is considered ‘strong’ in any further legal proceedings. Hence, the attorney-in-charge must make sure that a comprehensive prior art search covering all the patent, publication, product databases is carried out before *inter partes* reexamination is filed.

Comparison between Ex Parte and Inter Partes Reexamination

There are many factors that an attorney can look into before deciding between an *ex parte* and an *inter partes* reexamination for invalidity. Figure 3 depicts and compares some of these factors.

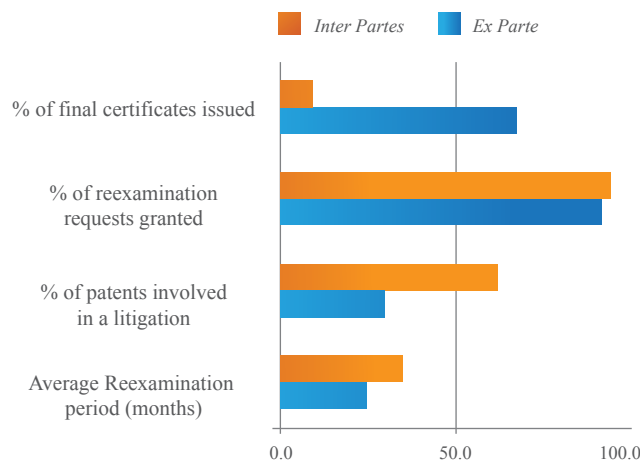


Fig 3: Comparison between Inter Partes & Ex Parte Reexamination

Due to the repeated responses that take place, final certification takes longer in the *inter partes* reexamination (Average: 34.9 months) as compared to *ex parte* reexamination (Average: 24.9 months) [3]. When the patent being reexamined is also involved in court litigation, the defendant may obtain a stay order citing the prolonged reexamination duration. This fact, apart from the additional role provided for the third party in the reexamination process, entices the defendants in a patent litigation to choose *inter partes* over *ex parte* reexamination.

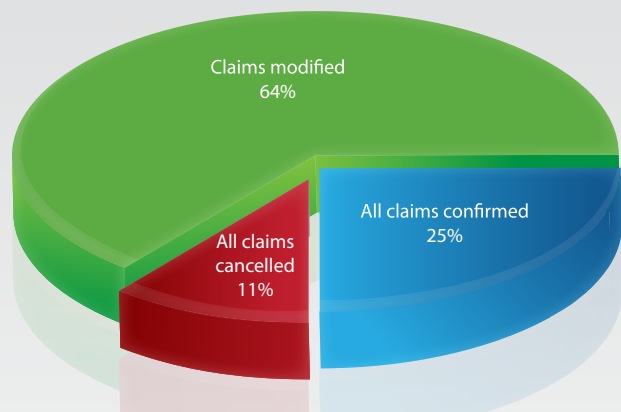


Fig 4.1: Outcome - *Ex Parte* Reexamination ^[3]

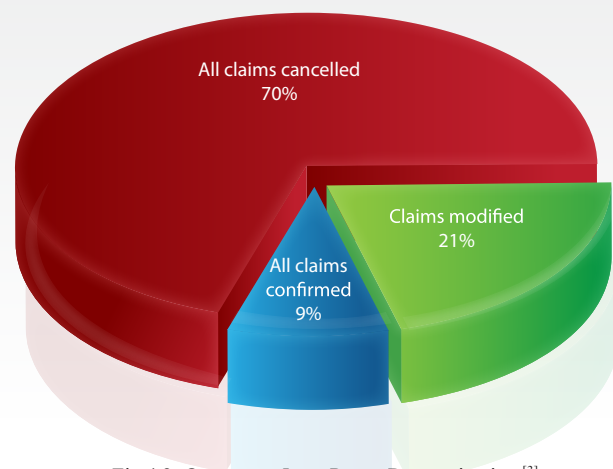


Fig 4.2: Outcome - *Inter Partes* Reexamination ^[3]

From the statistics of the *ex parte* reexamination outcomes (Figures 4.1 and 4.2), it can be noticed that a major proportion of the re-examined patents were certified with modified claims. However, the claim modification is likely to be in favor of the patent owner owing to minimum role allowed for the third party. Hence the statistic implies that the *ex parte* reexamination is merely an additional opportunity for the patent owner to address the discrepancies in the claims like antecedent basis, inconsistent terminology etc. In light of these factors, it is not advisable to

seek invalidity through *ex parte* reexamination unless the reexamination requesting party is highly confident of the SNQ. Besides, the reexamination requesting party must keep in mind that an adverse ruling may diminish the credibility of the prior art cited as the SNQ in further legal proceedings.

From the historical data of *inter partes* reexamination outcomes, it can be noticed that a major proportion (70%) of the reexamined claims were held invalid, as compared to a mere 40% of the claims challenged in courts based on prior art. Moreover, active participation of the reexamination requesters could help them in obtaining a favorable claim modification in *inter partes* reexamination.

Conclusion

Although both the court invalidity litigations and USPTO reexaminations have their own merits, the USPTO reexamination proceedings have been more favorable towards defendants as compared to the litigation proceedings in the courts in terms of validity decisions based on prior art. *Inter partes* reexamination is an avenue which could provide protection to the defendants from indiscriminate patent litigations at much lower costs as compared to the courts. A comprehensive prior art search result could help the defendant file the *inter partes* reexamination with more confidence and overcome the threat of monetary damages without spending huge amounts of time, effort and money.

References

- [1] “Court Verdicts in Patent Infringement Cases from 2005 to mid 2009” by Patstat.org
- [2] “Annual Statistics of the Court Decisions” by Patstat.org.
- [3] “The *Ex Parte* and *Inter Partes* Reexamination Data” by the USPTO

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- Favorable settlement with a medical systems company in a copyright case