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GAMING THE SYSTEM: INVALIDATING PATENTS IN REEXAMINATION AFTER FINAL JUDGMENTS IN LITIGATION

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Gaming the System: Invalidating Patents in Reexamination after Final Judgments in Litigation

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Introduction

Congress enacted patent reexamination statutes in 1980 granting the United States Patent and Trademark Office (“PTO”) the power to review the validity of previously issued patents. Congress’ primary purpose in creating the reexamination procedure was to strengthen the presumption of validity for patents¹ by granting the PTO a second opportunity to consider and apply prior art to expunge erroneously issued patents.² Additionally, Congress hoped that reexamination would provide an efficient and inexpensive alternative venue to litigating validity in the courts, to alleviate the burden on challengers, alleged infringers, and the court system.³

Patent reexamination has developed into a powerful defensive tool for defendants in infringement actions and competitors interested in a declaratory judgment of non-infringement and invalidity. Because the statute tolerates concurrent reexamination and litigation, challengers have two opportunities to invalidate a patent.⁴ As the newly formed Federal Circuit Court of Appeals began interpreting the statutes and the interplay between reexamination and litigation, reexamination became an increasingly powerful weapon. For example, the Federal Circuit stripped the presumption of validity from patents undergoing reexamination and adopted claim

¹ Mark D. Janis, *Rethinking Reexamination: Toward A Viable Administrative Revocation System for U.S. Patent Law*, 11 HARV. J.L. & TECH. 1, 22 (1997).

² *Id.* at 15.

³ *Id.* at 37.

⁴ *Id.* at 78.

construction standards used in examination, rather than the standards used by courts.⁵ Later the Federal Circuit allowed the PTO to invalidate a patent in reexamination even after the patent was held valid in federal court proceedings.⁶

The Federal Circuit's interpretation of reexamination statutes, however, may have opened the door to potential abuses. Should the same defendant be permitted to invalidate a patent in *ex parte* reexamination almost a decade after the federal circuit has issued a final judgment of validity? Should the same defendant be able to present the same prior art presented in litigation to the PTO, to be relied on to invalidate a patent in *ex parte* reexamination? In two recent decisions the Federal Circuit has answered in the affirmative over a sharp dissent from Judge Newman.⁷ These decisions highlight the need for Congress to step in and reform the reexamination statutes to level the playing field.

Part I explores the Federal Circuit's interpretation of the reexamination statutes into their present form. Part II examines examples of the potential for abuses based on the Federal Circuit's interpretation, leading to dissent by Judge Newman. Part III weighs the policy rationales advanced by the Federal Circuit justifying their interpretation and Judge Newman's concern that reexamination statutes are flawed. Part IV discusses various proposed amendments to the reexamination statute to accomplish the intended goals of reexamination without producing the possibility of giving alleged infringers unfair advantage.

⁵ *In re Etter*, 756 F.2d 852, 855 (Fed. Cir. 1985) (en banc).

⁶ *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1428-29 (Fed. Cir. 1988)

⁷ *In re Constr. Equip. Co.*, 665 F.3d 1254 (Fed. Cir. 2011); *In re Baxter Int'l, Inc.*, 678 F.3d 1357 (Fed. Cir. 2012).

Part I: Evolution

Read plainly, the *ex parte* reexamination statute enacted by Congress provides for broad administrative review of previously issued patents. The statute grants, “Any person at any time may file a request for reexamination . . . of any claim of a patent on the basis of any prior art”⁸ The statute places no restrictions on the timing of a reexamination request or the identity of the party making the request.⁹ In particular, the statute leaves open the possibility that an adjudicated infringer may request reexamination even after a final judgment in litigation.¹⁰ The broad statutory language is consistent with Congress’ intent to expunge erroneously issued patents and return the invention to the public domain, irrespective of when or by whom the reexamination request is made.¹¹

Additionally, the statute provides multiple opportunities to challenge the validity of a patent without preclusive effects against the requester in subsequent or concurrent litigation.¹² In order to protect patentees from the harassment of repeated reexamination requests, the statute requires that the prior art considered raise a substantial new question of patentability before allowing reexamination to take place.¹³ In practice, however, the substantial new question

⁸ 35 U.S.C.A. § 302 (West 2012).

⁹ Betsy Johnson, *Plugging the Holes in the Ex Parte Reexamination Statute: Preventing a Second Bite at the Apple for a Patent Infringer*, 55 CATH. U. L. REV. 305, 334 (2005).

¹⁰ *Id.*

¹¹ *Id.* at 333.

¹² Janis, *supra* note 1, at 78.

¹³ 35 U.S.C.A. § 303 (West 2012). The statute, as amended in 2002, permits finding a substantial new question of patentability even though the prior art forming the basis of the reexamination request was previously cited or considered by the PTO, but a substantial new question of patentability usually arises when the prior art was not considered by the original PTO examination and is not substantially identical to the previously considered prior art. *See* 4 DONALD S. CHISUM, CHISUM ON PATENTS § 11.07[4][c][iii] (2015); *See also* Janis, *supra* note 1, at 45.

threshold is often a low hurdle. In particular, finding a substantial new question regarding one claim will generally require reexamination of all claims in the patent.¹⁴

Although Congress initially considered defining the relationship between litigation and reexamination, the statutes as ultimately enacted provided for concurrent reexamination and litigation leaving questions regarding the interplay between the two forums unanswered. For example, one draft of the law would have required the PTO to consider all prior art before a court could consider validity based on such prior art.¹⁵ Congress, however, elected not to require courts to stay litigation pending reexamination, even though this would have helped make reexamination an efficient alternative to litigation.¹⁶ The Court of Appeals for the Federal Circuit, created in 1982,¹⁷ was tasked with explaining the interplay between reexamination and litigation left unaddressed by the statute.

A. No Presumption of Validity in the PTO

In *In re Etter*, the Federal Circuit addressed whether the presumption of patent validity arising from 35 U.S.C. § 282 applies to patents in reexamination before the PTO.¹⁸ Patents in litigation are presumed valid¹⁹ and the presumption may only be overcome by clear and convincing evidence.²⁰ The reexamination statutes are silent about the existence of any presumptions. Sitting en banc²¹ the court held that patents in reexamination are not afforded the

¹⁴ Janis, *supra* note 1, at 49.

¹⁵ Marvin Motsenbocker, *Proposal to Change the Patent Reexamination Statute to Eliminate Unnecessary Litigation*, 27 J. MARSHALL L. REV. 887, 894 (1994).

¹⁶ Janis, *supra* note 1, at 38.

¹⁷ Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25.

¹⁸ *In re Etter*, 756 F.2d 852, 855 (Fed. Cir. 1985) (en banc).

¹⁹ 35 U.S.C. § 282 (2012).

²⁰ *See, e.g.*, *Hybritech Inc. v. Monoclonal Antibodies, Inc.*, 802 F.2d 1367, 1375 (Fed. Cir. 1986); *Atlas Powder Co. v. E.I. du Pont De Nemours & Co.*, 750 F.2d 1569, 1573 (Fed. Cir. 1984).

²¹ The Federal Circuit decided to sit en banc of their own accord. *In re Etter*, 756 F.2d at 858.

presumption of validity.²² The court reasoned that the presumption of validity is only operative in relation to validity of *issued* patents in *litigation*.²³ In contrast, reexamination is a neutral setting wherein patents that have escaped complete review at the time of the initial examination can be reexamined.²⁴ Additionally, the reexamination is conducted *ex parte*, without a third party challenger.²⁵ Therefore, the reexamination is conducted in a manner similar to the pre-issuance examination, at which time there is no presumption.²⁶ As a matter of policy, to justify the application of the same standard employed in the original examination, the court raised the rationale that reexamination is necessary to increase the reliability of the PTO's action in issuing a patent, by again examining whether the patent should have issued.²⁷

The court also justified the different standards applied in patent litigation and reexamination by describing in detail how different the two forums are. The court declared, "litigation and reexamination are distinct proceedings, with distinct parties, purposes, procedures, and outcomes."²⁸ A denial of a request for reexamination does not estop a defendant from later contesting validity in court.²⁹ In reexamination, unlike in litigation, a patentee has an opportunity to distinguish newly cited prior art in front of the PTO and amend claims.³⁰ Reexamination also uses a different claim interpretation standard than is employed in litigation,³¹ reexamination lends the broadest reasonable interpretation to claims,³² whereas in litigation

²² *Id.*

²³ *Id.* at 857.

²⁴ *Id.*

²⁵ *Id.* at 858-59.

²⁶ *Id.* at 856-57.

²⁷ *Id.* at 857.

²⁸ *Id.*

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.* at 858.

³² *Id.* at 858 (quoting *In re Yamamoto*, 740 F.2d 1569, 1571 (Fed. Cir. 1984)).

claims are given their ordinary and customary meaning as understood by a person of ordinary skill in the art in question at the time of the invention.³³

The concurring opinion filed in *Etter* rejected the majority's interpretation regarding the presumption of validity in patent reexamination. Instead, the concurrence argued that the presumption of validity and claim construction standards used in litigation should be applied to reexamination proceedings as well.³⁴ Alternatively, if patents are stripped of their presumed validity in reexamination, the scope of reexamination should be limited to resolving the specific claims that raised a substantial new question of patentability, rather than allowing reexamination to disturb the otherwise settled portions of an issued patent.³⁵

The concurring opinion's policy concern is twofold. First, the reexamination procedure envisioned in the majority opinion provides unfair advantages to potential infringers that are not available in litigation. Reexamination already provides an accused infringer the ability to attack validity of the patent without any concerns about estoppel and provides a method of delay which may disadvantage a patent owner with less economic power.³⁶ The strategy most infringers would pursue would be to force the patent into reexamination, rather than litigation, to remove the patentee's presumption of validity and claim construction advantage.³⁷ Furthermore, although reexamination proceedings are technically *ex parte*, the third party requester does have some involvement in the proceeding, including forcing the reexamination, submitting prior art along with its analysis of the prior art, and filing a reply brief in response to the patent owner's

³³ *Phillips v. AWH Corp.*, 415 F.3d 1303, 1312-13 (Fed. Cir. 2005).

³⁴ *In re Etter*, 756 F.2d at 864-65 (Nies, J., concurring).

³⁵ *Id.* at 865.

³⁶ *Id.* at 862.

³⁷ *Id.*

objection.³⁸ Therefore, the third party does seem to be gaining some unfair advantage by being able to participate in what were intended to be neutral proceedings, but having a lower threshold to meet than in court.³⁹

Of course the response of the majority opinion would likely focus on the intent of the reexamination statute, which was to provide an alternative route to avoid costly litigation and remove patents that were erroneously issued.⁴⁰ The relatively small advantages provided in reexamination make it an attractive alternative—drawing defendants to the more economical forum in the PTO rather than the overburdened courts—and applying the same standards applied in the initial examination would help the PTO remove from the market any patents that should not have issued to begin with.⁴¹

The second policy concern of the concurrence is the stability of patents as a property right. Reexamination provides an opportunity for the PTO to second guess already examined and issued patents.⁴² Even settled patent claims may be reviewed if a substantial new question exists as to one claim in the entire patent.⁴³ Furthermore, patent validity is difficult to determine accurately and is subject to hindsight bias.⁴⁴ Finally, the legislative history shows no indication that Congress intended reexamination as a start over; rather, the intent was to remove clearly erroneously issued patents when a substantial new question of patentability arises and the PTO overcomes the presumption that the issued patent is valid.⁴⁵

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ *See* Janis, *supra* note 1, at 15, 37.

⁴¹ *See* *In re Etter*, 756 F.2d at 857.

⁴² *Id.* at 864 (Nies, J., concurring).

⁴³ *Id.*

⁴⁴ *Id.*

⁴⁵ *Id.* at 860-61.

The concurrence also highlighted that, as a matter of statutory interpretation, the reexamination statute is silent about what presumption should apply to issued patents.⁴⁶ In contrast, the presumption of validity articulated in 35 U.S.C. § 282 uses absolute language.⁴⁷ Therefore, there is no reason to upset the stability of the patent right unless it has been determined that there is a substantial new question of patentability regarding a specific patent claim and clear and convincing evidence exists to rebut the presumption.⁴⁸ The primary function of removing erroneous patents would still be accomplished because any new prior art never before considered by the PTO would more easily overcome the presumption of validity.⁴⁹ Raising substantially the same prior art, however, would be less likely to overcome the presumption of validity, because the PTO would have previously considered this art.⁵⁰

The majority opinion did not respond directly to the property rights rationale, but likely the majority would find that the curative function of removing erroneously issued patents should supersede the property rights of a patent holder. After all, if the patent is found invalid in reexamination, then the significant property rights—a complete monopoly for a considerable time—would not have existed to begin with. Furthermore, the majority would rely on the substantial new question threshold to provide protection against third parties harassing patent owners, minimizing the impact of reexamination on property rights. Finally, the majority was unwilling to read the presumption of validity requirement of 35 U.S.C. § 282 into the

⁴⁶ *Id.* at 860.

⁴⁷ *Id.* 35 U.S.C. § 282 states, in part, “A patent shall be presumed valid.” 35 U.S.C. § 282 (2012).

⁴⁸ *In re Etter*, 756 F.2d at 860-61 (Nies, J., concurring).

⁴⁹ *Id.* at 861.

⁵⁰ *Id.*

reexamination statute.⁵¹ Instead, the majority read the silence in the reexamination statute according to the intent of Congress to remove erroneously issued patents.⁵²

B. PTO May Not Stay Reexamination

In *Ethicon, Inc. v. Quigg*, the Federal Circuit addressed whether the PTO could stay reexamination of a patent being litigated in federal district court.⁵³ The Federal Circuit held that the PTO could not stay a reexamination and comply with the special dispatch requirement of 35 U.S.C. § 305.⁵⁴

As a matter of policy, the court rejected the notion that the one of the purposes of the reexamination statute was to avoid duplication of effects by the PTO and the courts.⁵⁵ The court gave two reasons for rejecting the duplication rationale. First, it is appropriate for the PTO to continue reexamination in parallel with ongoing litigation because the PTO has expertise not available anywhere else, including federal courts.⁵⁶ The court implies, presumably, that there is no reason to stay reexamination pending the outcome in the district court case because the PTO is better equipped to answer the validity question in reexamination. As a result, completing the reexamination before the district court issues a ruling on validity would still be beneficial.

The difference in level of expertise, however, does not sufficiently address the concern of duplication. More importantly, the second reason the court provides is that there is not “precise duplication” of effort because the PTO and the courts employ different standards of proof when

⁵¹ *In re Etter*, 756 F.2d at 858 (majority opinion).

⁵² *Id.*

⁵³ *Ethicon, Inc. v. Quigg*, 849 F.2d 1422 (Fed. Cir. 1988).

⁵⁴ *Id.* at 1426. 35 U.S.C. § 305 states, in part, “All reexamination proceedings . . . will be conducted with special dispatch within the Office.” 35 U.S.C. § 305 (2012).

⁵⁵ *Ethicon*, 849 F.2d at 1427.

⁵⁶ *Id.*

considering validity and the PTO is not limited to review of prior art patents or printed publication.⁵⁷ In other words, the PTO has a more comprehensive review of validity because the scope of review is more extensive and after *Etter* the PTO standard of review is lower because there is no presumption of validity. Therefore, there is no duplication of effort because the PTO can do what the courts cannot. Suspension of PTO reexaminations does not prevent duplication; it precludes access to the forum where there is no presumption of validity.⁵⁸

Implicit in the *Ethicon* court's reasoning is that the PTO should have the power to address validity after the district court has done so. For example, the court in dicta states that the PTO is not bound by a federal court decision, perhaps even a Federal Circuit decision, upholding validity.⁵⁹ The court relies on *Stevenson v. Sears Roebuck & Co.*, 713 F.2d 705, 710 (Fed. Cir. 1983) to allow for a finding of invalidity by the PTO after a patent is found valid in court.⁶⁰ The Supreme Court in *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 332-34 (1971) announced the standard for applying collateral estoppel offensively to prevent a patentee from asserting its alleged patent rights. The Supreme Court held that "once the claims of a patent are held invalid in a suit involving one alleged infringer, an unrelated party who is sued for infringement of those claims may reap the benefit of the invalidity decision under the principles of collateral estoppel."⁶¹ *Stevenson* clarified that prior judgments recognizing the validity of a patent do not prevent the application of collateral estoppel once a patent is found

⁵⁷ *Id.*

⁵⁸ Of course this reasoning provides a good justification for why courts should routinely stay litigation in order for the PTO to conduct a reexamination.

⁵⁹ *Ethicon*, 849 F.2d at 1429.

⁶⁰ *Id.*

⁶¹ See *Mendenhall v. Barber Greene Co.*, 26 F.3d 1573, 1577 (Fed. Cir. 1994) (summarizing the Supreme Court's holding in *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313, 332-34 (1971)).

invalid.⁶² Prior validity findings only mean that the defendant did not meet the burden of showing invalidity.⁶³ *Stevenson*, however, discussed a *court* invalidating a patent previously declared valid in *court*. The court in *Ethicon*, however, wanted to extend this holding to allow the PTO to review patent validity in *reexamination* after the patent was found to be valid in *court*. Additionally, the court in *Stevenson* addressed a case in which two different litigations took place, each involving a different defendant. This too, is distinguishable from *Ethicon*, which involves the same defendant requesting the reexamination, whereas in *Stevenson* the finding of invalidity occurred in litigation with a second defendant, who was uninvolved in the initial litigation in which the patent was held valid. As a result, it would be less likely to require a court follow a reexamination decision of invalidity that occurred after litigation between the same parties.

C. PTO May Reexamine a Valid Patent Based on the Prior Art Considered by the Court

In 2008, the Federal Circuit addressed head on for the first time the question of whether the PTO could reexamine a patent determined to be valid by a court in *In re Swanson*.⁶⁴ Patent licensee, Abbott, sued Syntron for infringement of two of its patents.⁶⁵ Syntron counterclaimed that the patents were invalid.⁶⁶ At trial, the jury found that Syntron failed to prove that the patents were invalid, but found no infringement.⁶⁷ On appeal, the Federal Circuit affirmed the judgment of validity but affirmed-in-part and remanded-in-part the judgment of non-

⁶² See *Stevenson v. Sears*, 713 F.2d 705, 710-11 (Fed. Cir. 1983).

⁶³ *Id.*

⁶⁴ *Swanson*, 540 F.3d 1368 (Fed. Cir. 2008).

⁶⁵ *Swanson*, 540 F.3d at 1373.

⁶⁶ *Id.*

⁶⁷ *Id.*

infringement.⁶⁸ On remand, the trial court found infringement and awarded a permanent injunction.⁶⁹ During the damages phase the parties settled the case.⁷⁰

Meanwhile, after Syntron lost its appeal on the question of validity, Syntron filed a reexamination request regarding the claims that were remanded.⁷¹ The claims were rejected by the Examiner.⁷² Patent owner, Surmodics, appealed the rejection to the Board of Patent Appeals and Interferences (“Board”), but the Board affirmed the Examiner’s rejection.⁷³ Surmodics then appealed the Board’s decision to the Federal Circuit, arguing that the district court’s consideration of prior art prevents the same art from raising a substantial new question of patentability to initiate a reexamination proceeding.⁷⁴ The Federal Circuit affirmed the Board’s decision, holding that a substantial new question of patentability could be found even if the district court considered the same prior art.⁷⁵

The court noted that although the Federal Circuit previously held that the substantial new question of patentability standard precluded granting a reexamination based on same prior art considered by the *PTO* in the original examination,⁷⁶ Congress disagreed and amended 35 U.S.C. § 303(a) to explicitly overturn that holding.⁷⁷ Instead, recognizing that mistakes may occur in the initial examination, reexamination curative purpose should allow the *PTO* to revisit the patent as long as a substantial new question of patentability exists. 35 U.S.C. § 303(a) and the

⁶⁸ *Id.*

⁶⁹ <http://www.sunsteinlaw.com/cases/representative-patent-litigations.html>

⁷⁰ *Id.*

⁷¹ Swanson, 540 F.3d at 1373.

⁷² *Id.*

⁷³ *In re Swanson*, No. 2007-0725, Reexamination No 90/006,785 (B.P.A.I. May 29, 2007).

⁷⁴ Swanson, 540 F.3d at 1374.

⁷⁵ *Id.* at 1379.

⁷⁶ *In re Portola Packaging Inc.*, 110 F.3d 786 (Fed. Cir. 1997).

⁷⁷ Swanson, 540 F.3d at 1375-76.

legislative history, however, are silent about whether a substantial new question of patentability may be found based on art previously considered by a *district court*.⁷⁸ Despite the silence of the statute, the court, relying on *Ethicon*, reasoned that Congress did not intend a prior court judgment upholding validity to prevent the PTO from finding a substantial new question of patentability.⁷⁹ In essence, because in *Ethicon* the court implied that a reexamination could reach a different outcome on validity even after the court had made a decision, the PTO should not be prohibited from finding a substantial new question just because the district court already addressed the prior art. The alternative would deny reexamination's curative role to a litigant based on failing to prove at trial that the patent was invalid by clear and convincing evidence, a higher standard than required in reexamination.⁸⁰

The court then addressed the Article III argument made by Surmodics. Surmodics argued that the PTO, an executive administrative agency, lacks the authority to review decisions of Article III courts.⁸¹ The court reasoned that the reexamination decision is not disturbing the courts earlier holding regarding validity.⁸² A court finding a patent valid only means that the alleged infringer failed to meet burden of showing patent was invalid by clear and convincing evidence. In contrast, the PTO did find a preponderance of the evidence supported invalidating the patent.⁸³ Relying on *Ethicon*, the court found no Article III issue because the two proceedings use two different standards of proof, and therefore the PTO decision is not reviewing the holding of the court, even though they are addressing the same issue.⁸⁴

⁷⁸ *Id.* at 1376-77.

⁷⁹ *Id.* at 1378.

⁸⁰ *Id.*

⁸¹ *Id.*

⁸² *Id.* at 1379.

⁸³ *Id.*

⁸⁴ *Id.*

Looking back on 16 years of the Federal Circuit’s endeavors to interpret the reexamination statutes, the court distinguished reexamination as an absolutely independent process for addressing validity. The curative role of removing erroneously issued patents became the driving force behind this interpretation, whereas creating an alternative forum to expensive litigation was largely overlooked.⁸⁵ First, in *Etter* the court removed the presumption of validity for patents reviewed in reexamination, applying the same standards employed in the original examination rather than according the previously issued patent with any deference.⁸⁶ Later, in *Ethicon* the court denied a stay of reexamination irrespective of the status of the ongoing litigation.⁸⁷ Ultimately, in *Swanson* the court granted the PTO carte blanche the power to grant a reexamination based on prior art already considered by the courts and ultimately reach a different result on the issue of validity.⁸⁸

Part II: Abuses

Litigants have been paying attention to the trends at the Federal Circuit in interpreting the reexamination statutes. Two recent cases to reach the Federal Circuit have exposed how the evolution of reexamination law has created openings for tactical advantage, or perhaps abuse, by an alleged or adjudicated infringer.

In re Construction Equip. Co., provides the first example of potential abuse of the reexamination system involving a willful infringer requesting reexamination seven years after an

⁸⁵ Janis, *supra* note 1, at 43.

⁸⁶ *In re Etter*, 756 F.2d 852, 858 (Fed. Cir. 1985).

⁸⁷ *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1429 (Fed. Cir. 1988).

⁸⁸ *In re Swanson*, 540 F.3d 1368, 1378 (Fed. Cir. 2008).

adverse judgment in litigation.⁸⁹ In 1996, patentee, Construction Equipment Company (“CEC”) sued Powerscreen for infringement.⁹⁰ The jury found that the patent was valid, enforceable, and willfully infringed and the district court entered final judgment.⁹¹ In 2000, the Federal Circuit affirmed the district court ruling that Powerscreen failed to establish the patent was invalid based on the on-sale and public-use bars of 35 U.S.C. § 102.⁹² The Supreme Court denied certiorari in February 2001.⁹³

Nearly seven years after the Federal Circuit affirmed the trial court ruling, in January 2007, Powerscreen requested reexamination of CEC’s patent.⁹⁴ Powerscreen placed its strongest reliance on the same prior art references it relied upon in litigation, but Powerscreen added some new references.⁹⁵ The PTO determined that the reexamination request raised a substantial new question of patentability.⁹⁶ The Examiner rejected all of the claims at issue,⁹⁷ the Board affirmed

⁸⁹ *In re Constr. Equip. Co.*, 665 F.3d 1254, at 1260 (Fed. Cir. 2011) (Newman, J., dissenting).

⁹⁰ *Constr. Equip. Co. v. Powerscreen Int’l Distrib., Ltd.*, No. 96-CV-1574-AC, 2009 WL 437703 (D. Or. Feb. 19, 2009).

⁹¹ *Id.*

⁹² *Powerscreen of Am., Inc.*, 243 F.3d 559 (Fed. Cir. 2000), *cert. denied*, 531 U.S. 1148 (2001).

⁹³ *Powerscreen of Am., Inc. v. Constr. Equip. Co.*, 531 U.S. 1148, (2001)(mem.).

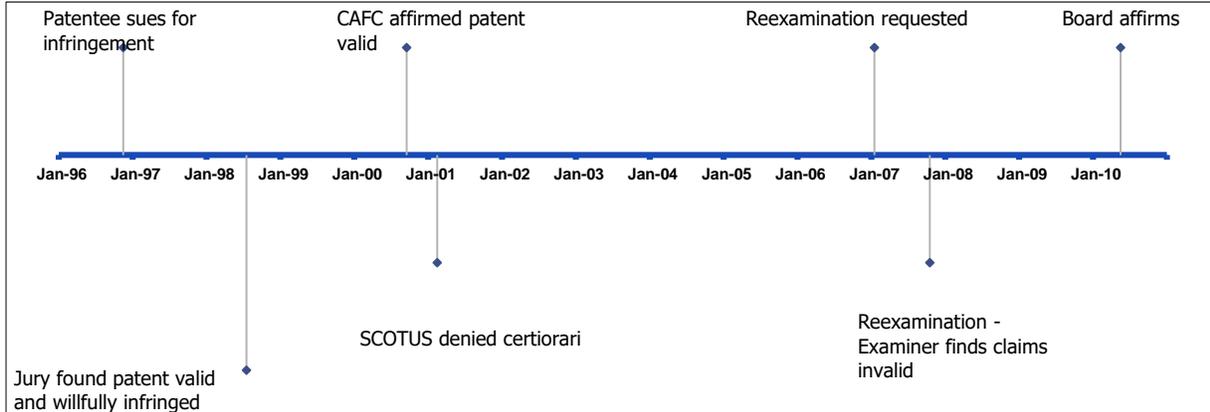
⁹⁴ *In re Constr. Equip. Co.*, 665 F.3d at 1260 (Newman, J. dissenting).

⁹⁵ *Id.* The litigation relied on the Eriksson patent and brochures for the Trommel 620 or the Royer Trommel machines. The request for reexamination was accompanied by an Information Disclosure Statement listing Eriksson and Douglass patents and RSTI (Trommel/Royer) and Möckeln brochures.

⁹⁶ *In re Constr. Equip. Co.*, 665 F.3d. 1254, 1255.

⁹⁷ *Id.*

the rejection,⁹⁸ and CEC appealed the rejection to the Federal Circuit.⁹⁹



To the majority opinion this case was simply a review of the reexamination record. Focusing solely on the issue of the Examiner’s rejection of the claims and the Board’s affirmation, the majority found substantial evidence supported the rejection of the claims.¹⁰⁰ The court did not address the issue of reexamination occurring more than a decade after litigation began primarily because *Swanson* already permitted reexamination proceedings that invalidate a patent after a district court final judgment of validity.¹⁰¹

Judge Newman, writing in dissent, asserted that the appeal raised a question of whether reexamination proceedings are appropriate after litigation, including a final judgment by the district court and affirmance by the Federal Circuit.¹⁰² Judge Newman concluded that allowing a reexamination proceeding after final judgment is improper on several grounds. First, administrative agencies like the PTO are constitutionally bound to respect final judgments of

⁹⁸ *Ex parte Constr. Equip. Co.*, No. 2009-005265, 2009 WL 2807871 (B.P.A.I. Aug. 31, 2009), *reh'g denied*, 2010 WL 2157846 (B.P.A.I. May 28, 2010).

⁹⁹ *In re Constr. Equip. Co.*, 665 F.3d 1254, 1255.

¹⁰⁰ *Id.* at 1256.

¹⁰¹ *Id.* at n.3

¹⁰² *Id.* at 1257.

Article III courts.¹⁰³ Rejecting the reasoning of *Swanson*, Judge Newman argued that Congress did not intend that the reexamination procedure would violate the separation of powers by allowing an administrative agency to review validity already adjudicated by an Article III court.¹⁰⁴ Second, res judicata and issue preclusion principles should bar additional consideration of validity by the same litigant.¹⁰⁵ Finally, allowing reexamination proceedings after concluding litigation would run afoul of Congressional intent in enacting the reexamination statute.¹⁰⁶

In re Baxter Int'l, Inc., presents another example of potential abuse from granting a reexamination request based on the same prior art references used in litigation and allowing the PTO to invalidate a patent held to be valid in court.¹⁰⁷

Litigation began in 2003, when Fresenius, one of Baxter's competitors, filed a declaratory judgment action for non-infringement and invalidity of five of Baxter's patents, including U.S. Patent No. 5,247,434 ("the '434 patent").¹⁰⁸ The district court held that Fresenius infringed the '434 patent.¹⁰⁹ After the jury found the '434 patent invalid, the court granted judgment as a matter of law that Fresenius failed to show by clear and convincing evidence that the patent was obvious.¹¹⁰ The judgment as a matter of law was later upheld on appeal on Sept. 10, 2009.¹¹¹

¹⁰³ *Id.* at 1258.

¹⁰⁴ *Id.*

¹⁰⁵ *Id.* at 1258-59.

¹⁰⁶ *Id.* at 1261-62.

¹⁰⁷ *In re Baxter Int'l, Inc.*, 678 F.3d 1357, 1369-70 (Fed. Cir. 2012) (Newman, J. dissenting).

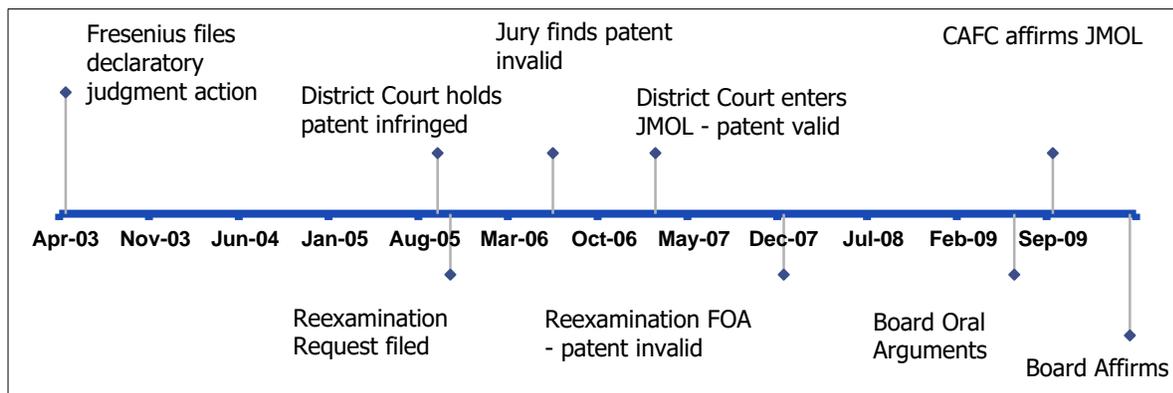
¹⁰⁸ *Fresenius Medical Care Holdings, Inc. v. Baxter Int'l, Inc.*, No. 03-1431, 2005 WL 6220105 (N.D. Cal., Mar. 2, 2005).

¹⁰⁹ *Fresenius Med. Care Holdings, Inc. v. Baxter Int'l, Inc.*, No. 03-1431, 2007 WL 518804 (N.D. Cal. Feb. 13, 2007). *vacated and remanded sub nom.* *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 582 F.3d 1288 (Fed. Cir. 2009).

¹¹⁰ *In re Baxter Int'l, Inc.*, 678 F.3d 1357, 1360 (Fed. Cir. 2012).

¹¹¹ *Id.*

Meanwhile, on October 18, 2005, six weeks after the district court held that their product infringed the '434 patent and two years into the litigation, Fresenius filed a request for reexamination of the '434 patent.¹¹² The reexamination request was based primarily on the same prior art references relied upon in the litigation.¹¹³ During reexamination the Examiner rejected the key claims of the '434 patent as obvious.¹¹⁴ On appeal, after the Federal Circuit affirmed the litigation result, the Board affirmed the Examiner's rejection.¹¹⁵



The Board relied on *Swanson* to justify ignoring the validity determination in litigation.¹¹⁶ The majority opinion agreed that the difference between proceedings in the PTO and courts allows the PTO to find a patent invalid even after a court has found the patent valid.¹¹⁷ The majority reasoned that even though Fresenius failed to raise the prior art at trial, Congress provided for reexamination to any party and at any time as long as there is a substantial new

¹¹² *Ex Parte Baxter Int'l, Inc., Patent Owner & Appellant, Appeal 2009-006493*, 2010 WL 1048980 (B.P.A.I. Mar. 18, 2010), *aff'd*, 678 F.3d 1357 (Fed. Cir. 2012).

¹¹³ *In re Baxter Int'l, Inc.*, 678 F.3d at 1370 (Newman, J. dissenting).

¹¹⁴ *Id.* at 1360.

¹¹⁵ *Id.*

¹¹⁶ *In re Baxter Int'l, Inc.*, 678 F.3d at 1360-61.

¹¹⁷ *Id.* at 1364-65.

question of patentability.¹¹⁸ To hold otherwise would require overruling *Swanson* and *Ethicon*.¹¹⁹

Dissenting once more, Judge Newman, argued that allowing reexamination proceedings to ignore final judgments resulting from litigation violates the constitutional plan, disturbs settled judgments, and runs contrary to the rules of estoppels and preclusion.¹²⁰ Understanding the competing rationales underlying the opinions of the majority and dissent by Judge Newman will help provide insight as to what, if any, reforms are needed for the patent reexamination system.

Part III: Analysis

Perhaps the best way to understand the disagreement between the majority of the Federal Circuit and Judge Newman is to understand what is at stake in terms of the stability, fairness, and constitutionality of permitting reexamination after litigation.

A. Stability of Judgments

Requests for reexamination after litigation are typical when a defendant is adjudicated an infringer or when a plaintiff requesting declaratory judgment of invalidity receives a ruling that the patent is valid. The resulting judgment means either damages or an injunction that make competition in the market place difficult or impossible. The motivation of requesting reexamination therefore is aimed at mitigating or counteracting the direct financial consequences of an adverse judgment.

¹¹⁸ *Id.* at 1365.

¹¹⁹ *See id.*

¹²⁰ *Id.* at 1366 (Newman, J., dissenting).

It is important to understand the different types of remedies that face an adjudicated infringer. Patent remedies are available to deal with both past and future infringement. Past infringement is often remedied by a lump-sum payment that is calculated based on lost profits, established royalties, or reasonable royalties.¹²¹ Future infringement may be remedied by permanent injunction, though permanent injunctions are rarely granted in the post-*eBay* world.¹²² If a permanent injunction is denied, courts will generally either provide monetary damages by means of an ongoing royalty payment or lump-sum payment, or permit the plaintiff to undertake successive action to compensate for infringement.¹²³ Alternatively, a court may grant a permanent injunction, but provide a grace period during which any post-verdict infringement is remedied by ongoing royalty or lump-sum payment.¹²⁴

Recently, the Federal Circuit, in denying rehearing en banc in *Baxter*, articulated their belief that prior final judgments should not be disturbed, agreeing with Judge Newman at least in regard to past damages.¹²⁵ In the concurring opinion, penned by Judge O'Malley and joined by Chief Judge Rader and Judge Linn, the court answered the question of how a reexamination conclusion of invalidity will affect a prior judgment, holding that the PTO does not have the power to “disturb the judgment of the court or alter its binding effect on the parties.”¹²⁶ The court rests this result on res judicata principles.¹²⁷ In answering the question this way, the court

¹²¹ 7-20 DONALD S. CHISUM, CHISUM ON PATENTS § 20.03 (Matthew Bender).

¹²² See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

¹²³ H. Tomás Gómez-Arostegui, *Prospective Compensation in Lieu of a Final Injunction in Patent and Copyright Cases*, 78 Fordham L. Rev. 1661, 1672 (2010); See, e.g., *Paice LLC v. Toyota Motor Corp.*, 504 F.3d 1293, 1314-15 (Fed. Cir. 2007).

¹²⁴ See, e.g., *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, 582 F.3d 1288, 1303 (Fed. Cir. 2009).

¹²⁵ *In re Baxter Int'l, Inc.*, 698 F.3d 1349, 1351 (Fed. Cir. 2012).

¹²⁶ *Id.* (“[I]f a federal court awards relief to a patent holder against an infringer, a subsequent reexamination decision that the patent is invalid does not disturb the judgment of the court or alter its binding effect on the parties.”(quoting the PTO’s response to the petition for rehearing en banc)).

¹²⁷ *Id.*

seems be in agreement with Judge Newman regarding the res judicata issue, but a closer look at the particulars indicates a disagreement still exists.

In the case of remedying past infringement and perhaps in the case of a lump-sum payment for future infringement, the concurring opinion leaving judgments undisturbed makes sense. This result is consistent with the concept of finality of judgments.¹²⁸ However, it is unclear how the Federal Circuit concurrence would handle ongoing royalty payments and permanent injunctions. A permanent injunction was awarded at trial in *Baxter*, but the patent term had already expired before the reexamination results were finalized.¹²⁹ Fresenius, however, believed that it had a chance to use reexamination to terminate the patent and achieve relief. As a result of the timing (i.e. after the patent expired) the court does not clearly answer the question of whether future on-going royalties and/or permanent injunction could be disturbed by a reexamination proceeding.

Despite the finality of judgments, relief from future damages may be achieved using a Rule 60(b)(5) motion. Rule 60(b)(5) permits a court to relieve a party from a final judgment if applying it prospectively is no longer equitable.¹³⁰ A motion under Rule 60(b)(5) must be made within a reasonable time.¹³¹ In the absence of clear guidance from the Federal Circuit, courts have had to piece together rules for applying Rule 60(b)(5) motions in the patent context. Courts have provided relief from permanent injunctions after a patent was held invalid in a separate

¹²⁸ See FED. R. CIV. P. 60(c)(2) (stating that a motion for relief does not affect a judgment's finality).

¹²⁹ *Fresenius USA, Inc. v. Baxter Int'l, Inc.*, No. C 03-1431 PJH, 2012 WL 761712 (N.D. Cal. Mar. 8, 2012), *vacated*, 721 F.3d 1330 (Fed. Cir. 2013), *cert. denied*, 134 S. Ct. 2295 (2014).

¹³⁰ FED. R. CIV. P. 60(b)(5) (stating that “[o]n motion and just terms, the court may relieve a party or its legal representative from a final judgment, order, or proceeding for the following reasons: . . . the judgment has been satisfied, released or discharged; it is based on an earlier judgment that has been reversed or vacated; or applying it prospectively is no longer equitable . . .”).

¹³¹ FED. R. CIV. P. 60(c)(1).

court proceedings. For example, in *Life Technologies, Inc. v. Promega Corp.*, the district court held that a Rule 60(b)(5) motion could provide relief from a permanent injunction, issued as part of a consent decree, after the patents at issue were held invalid in a separate court proceeding for inequitable conduct.¹³²

Courts have also stated or implicitly suggested that a patent held invalid in *reexamination* could be used to provide relief from a final judgment. For example, in *Constr. Equip. Co. v. Powerscreen Int'l Distrib., Ltd.*, the district court denied a Rule 60(b)(5) motion to stay a permanent injunction after the underlying patents were rejected as invalid by the PTO in reexamination, but before appeals to the Board and Federal Circuit were completed.¹³³ The court noted that unlike in *Promega*, the PTO rejection in reexamination is not a final adjudication of validity.¹³⁴ The implication of the court's reasoning is that after appeals were exhausted invalidation of patents in reexamination could be used to provide relief from a permanent injunction.

In *Flexiteek Americas, Inc., v. Plasteak, Inc.*, the district court granted a motion to provide relief from a permanent injunction (and unexecuted money judgment) after the underlying patent was invalidated in reexamination and the rejection was affirmed on appeal to the Board.¹³⁵ The court reasoned that the invalidation of the patent in reexamination rendered the claim “void *ab initio*” and therefore it would be inequitable to enforce a judgment based on a

¹³² *Life Technologies, Inc. v. Promega Corp.*, 189 F.R.D. 334, 336-37 (S.D. Md. 1999).

¹³³ *Constr. Equip. Co. v. Powerscreen Int'l Distrib., Ltd.*, No. 96-CV-1574-AC, 2009 WL 437703, *10 (D. Or. 2009).

¹³⁴ *Id.* at 4.

¹³⁵ *Flexiteek Americas, Inc. v. Plasteak, Inc.*, No. 08-60996-CIV, 2012 WL 5364263, *9 (S.D. Fla. Sept. 10, 2012), *adopted and supplemented*, by 2012 WL 5364347 (S.D. Fla. Oct. 31, 2012).

patent that legally never existed.¹³⁶ The idea that a patent invalidated in reexamination is “void *ab initio*” derives from *Standard Havens Products, Inc., v. Gencor Industries, Inc.*, where the Federal Circuit held in an unpublished opinion that a decision of unpatentability in reexamination would cause the injunction to become immediately inoperative, and a final decision of unpatentability would make the patent void *ab initio* and preclude damages.¹³⁷ Certainly, the *Standard Havens* rule runs against the finality rule regarding retrospective damages, so the magistrate judge probably erred on this point. However, the void *ab initio* analysis applied with regard to the permanent injunction still provides solid reasoning; it would be inequitable to apply an invalid patent prospectively to prevent a party from practicing an invention no longer covered by patent protection.

In 2008, the Federal Circuit examined Rule 60(b)(6) motions in *Amado v. Microsoft Corp.*¹³⁸ Rule 60(b)(6) is a catch all provision providing relief from a final judgment for “any other reason that justifies relief.”¹³⁹ The district court denied a rule 60(b) motion because Microsoft was aware of the prior art well before trial, but only sought reexamination based on the prior art after an adverse final judgment was issued at trial.¹⁴⁰ The court reasoned that the lack of diligence in filing a reexamination petition was sufficient to affirm the denial of the Rule 60(b)(6) motion.¹⁴¹ Again, if a court’s final judgment could not be disturbed after reexamination, the court would not worry about diligence, but instead would affirm the district court ruling because reexamination after litigation should not disturb the judgment at all. Of

¹³⁶ *Id.*

¹³⁷ *Standard Havens Prods., Inc., v. Gencor Indus., Inc.*, 996 F.2d 1236, *1 (Fed. Cir. 1993), *reh’g denied, suggestion for rehearing in banc declined* (July 20, 1993) (unpublished decision).

¹³⁸ *Amado v. Microsoft Corp.*, 517 F.3d 1353, 1360 (Fed. Cir. 2008).

¹³⁹ FED. R. CIV. P. 60(b)(6).

¹⁴⁰ *Amado*, 517 F.3d at 1363.

¹⁴¹ *Id.*

course, Rule 60(b)(6) does not operate in exactly the same manner as Rule 60(b)(5), but perhaps the reasoning does seem to relate to the circumstance of a Rule 60(b)(5) motion.

Returning to the Federal Circuit's denial of rehearing en banc in *Baxter*, the concurring opinion asserted that a subsequent reexamination decision invalidating a patent cannot "alter the binding effect of a prior judgment in a judicial proceeding."¹⁴² Perhaps a plain reading of this statement means that the finality of the judgment is not disturbed even as to future damages, and therefore there is no harm to a patentee vis à vis the adjudicated infringer even if the patent was invalidated in reexamination. This interpretation is odd because adjudicated infringers, like Powerscreen and Fresenius, would likely not spend the time and money to reexamine the patent if there was no benefit. Furthermore, as the court state in *Amado*, "[t]here is a fundamental difference . . . between the granting of retrospective relief and the granting of prospective relief."¹⁴³ It is more likely that the concurrence opinion would find that the invalidity decision in reexamination did not alter binding effect of the judgment as it related to the damages. Instead, the reexamination decision is simply a decision on validity based on a separate burden of proof as argued in *Ethicon* and *Swanson*. Once there is an invalidity decision, however, the court may cancel future royalty payments or terminate a permanent injunction. As a result, even though the majority of the Federal Circuit agrees that the final judgment is settled, in reality, it there is still an opportunity for equitable relief that would provide a second opportunity to for adjudicated infringers to attack a patentee.

¹⁴² *In re Baxter Int'l, Inc.*, 698 F.3d 1349, 1351 (Fed. Cir. 2012).

¹⁴³ *Amado*, 517 F.3d at 1360.

The concurrence also adds the following: “Well established principals of res judicata will govern the continuing relationship between the parties to any court proceeding and will dictate whether the PTO’s reexamination ruling will have any impact on them going forward.”¹⁴⁴ In general, res judicata has been interpreted to not apply to Rule 60(b)(5) motions.¹⁴⁵ Therefore, it is similarly understood that future damages may be disturbed even if the Federal Circuit complies with res judicata.

The issue of future damages, therefore, is a wedge between Judge Newman and her colleagues on the Federal Circuit. Although Judge Newman would agree that Rule 60(b)(5) provides an opportunity for reexamination after litigation to provide relief from future damages, Judge Newman would not allow the adjudicated infringer to request such a reexamination after having their day in court. In contrast, the Federal Circuit seems to be comfortable with the idea that adjudicated infringers will have a separate opportunity to attack future damages.

B. Analysis of Competing Policies

The disagreement between Judge Newman and the rest of the Federal Circuit seems to go beyond the technicality of how a reexamination is allowed to provide relief from future damages awarded at trial. The two sides are truly divided about the policies involved and the fairness to allow a litigant to have two bites at the apple. Judge Newman weighs more heavily the stability of patent property rights, adhering to both the curative and alternative forum rationales of the

¹⁴⁴ *In re Baxter Int’l, Inc.*, 698 F.3d at 1351.

¹⁴⁵ *See, e.g., W.L. Gore & Associates, Inc. v. C.R. Bard, Inc.*, 977 F.2d 558, 561 (Fed. Cir. 1992) “The Supreme Court has recognized that the policies of res judicata are not totally inviolate when the judgment includes an injunction of prospective effect, and must be balanced against the need, in ‘sound judicial discretion,’ to modify a continuing injunction when circumstances have sufficiently changed.” (internal citation omitted).

reexamination statute, and thwarting any gamesmanship and unfair advantage in litigation.¹⁴⁶ In contrast, the Federal Circuit appears to stress the curative function—removing bad patents from the rolls and stripping monopoly rights that should never have been granted—and relying on existing protections to prevent serious abuse of the system.

With respect to property rights, Judge Newman is concerned with increasing the costs of protecting a patent right. From its inception, the United States patent system was premised on promoting technological advancement in exchange for providing limited monopolies to inventors.¹⁴⁷ Strong property rights create an incentive for investment in new invention. Each opportunity imbedded in the system to strip an inventor of his or her property right creates commercial instability and reduces the value of the property right; eroding the value of property rights decreases the incentive to invent and undermines the purpose of the patent system, even if only at the margins.¹⁴⁸

Of course, Congress recognized the importance of stable patent rights in its enactment of the reexamination statutes. One of the goals of reexamination is to strengthening investor confidence in the certainty of patent rights by creating a system of administrative reexamination of doubtful patents.¹⁴⁹ The statute must balance the need to create long-term stability regarding patent rights, with the short-term volatility introduced by reexamining some patents. In this regard, the curative function of removing erroneously issued patents is intended to promote

¹⁴⁶ See, e.g., *Joy Mfg. Co. v. Nat'l Mine Serv. Co., Inc.*, 810 F.2d 1127, 1132 (Fed. Cir. 1987) (Newman, J., dissenting) (“It is cynical to enable the accused infringer to reopen hostilities in another forum. . . [after the patentee] and the court were gulled into an erroneous belief that the entire matter in litigation was settled.”).

¹⁴⁷ U.S. CONST. art. I, § 8, cl. 8.

¹⁴⁸ *In re Constr. Equip. Co.*, 665 F.3d 1254, 1261 (Fed Cir. 2011) (Newman, J., dissenting) (“The public interest in finality is particularly compelling in the context of commercial investment and property rights. The adverse effect on the patent incentive, due to uncertainty as to the validity of a duly granted patent, is notorious, and permeates the hearing record of the recently enacted American Invents Act.”).

¹⁴⁹ Charles E. Miller, & Daniel P. Archibald, *Interpretive Agency-Rulemaking vs. Statutory District Court Review-Jurisdiction in Ex Parte Patent Reexaminations*, 92 J. PAT. & TRADEMARK OFF. SOC'Y 498, 504 (2010).

confidence that patents in the marketplace have value, even though the very process itself may result in some patents being withdrawn from the marketplace.

Sensitive to the double-edged sword presented by adding an opportunity to disturb established patent rights, Congress placed limitations on the ability to reexamine patents. The first safeguard, universally accepted by the Federal Circuit, is that a third party requesting reexamination must demonstrate a substantial new question of patentability before the PTO will reexamine a patent.¹⁵⁰ This provision is meant to protect existing patents from harassment of repeated reexamination initiated by competitors.¹⁵¹ The protection of the substantial new question standard, however, is not perfect; it allows for hindsight bias to creep into the analysis of obviousness and creates an opening for using any substantial new question of patentability as a pretext to reexamine all the claims in a patent.¹⁵²

Second guessing patents, however, should not be too frightful to inventors and investors given that patents could be invalidated in litigation even before reexamination procedures existed. Furthermore, stability may be fleeting as nearly 75% of litigated patents are found invalid or non-infringed at trial.¹⁵³ Nevertheless, the second rationale behind patent examination is to create an inexpensive alternative to litigation.¹⁵⁴ In other words, although reexamination is desirable to remove erroneously issued patents, it is also intended to decrease the costs associated with contesting a patent. Unfortunately, because reexamination and litigation may proceed simultaneously costs are often increased, rather than reduced. Nonetheless, the rationale of reducing costs, should dictate that reexamination by the same party involved in litigation

¹⁵⁰ U.S.C.A., *supra* note 13.

¹⁵¹ *Id.*

¹⁵² Janis, *supra* note 1, at 49.

¹⁵³ Mark A. Lemley, *Ignoring Patents*, 2008 MICH. ST. L. REV. 19, 27 (2008).

¹⁵⁴ Janis, *supra* note 1, at 37.

should not be allowed after the party had an opportunity to litigate. Continued opportunities to reexamine a patent after litigation lead to a waste of PTO resources, and failing to force a patent into reexamination earlier often wastes judicial resources as well.

Judge Newman's opinions have demonstrated a commitment to balancing the pair of rationales underlying reexamination.¹⁵⁵ She joined the majority opinion in *Etter* to strip patents of the presumption of validity in reexamination, accepting that the curative rationale is important despite its impact on property rights. Judge Newman, however, has not adopted the curative rationale as an overriding rationale guiding patent reexamination. Therefore, once a party has had an opportunity to litigate, the same party should not be allowed to disturb property rights and waste additional PTO and judicial resources.¹⁵⁶

Moreover, Judge Newman is ultimately concerned with the fairness of litigation and other patent contests. This is clear from her dissent in *Joy Mfg. Co. v. Nat'l Mine Serv. Co., Inc.* In *Joy Mfg.*, the patentee, Joy, and alleged infringer, National, settled their litigation such that National was granted a license in exchange for agreeing not to bring suit in any United States court challenging the validity of Joy's patent.¹⁵⁷ The majority opinion found the contract unambiguous and interpreted the agreement literally to prohibit future litigation of the patent only, but to permit reexamination in the PTO.¹⁵⁸ In contrast, Judge Newman, perceived the inherent unfairness of one party taking unfair advantage of the other party:

¹⁵⁵ In re Baxter Int'l., Inc. 678 F.3d at 1369 (Newman, J., dissenting) ("I support the concept of reexamination as an efficient and economical alternative to litigation in appropriate cases It was not intended to undermine the finality of judicial process; it was not intended to negate the repose provided by adjudication.")

¹⁵⁶ In re Constr. Equip. Co., 665 F.3d 1254, 1261 (Fed. Cir. 2011) (Newman, J., dissenting) ("Conservation of judicial and administrative resources also counsels against relitigation of issues that have been fully adjudicated and finally decided.")

¹⁵⁷ *Joy Mfg. Co. v. Nat'l Mine Serv. Co., Inc.*, 810 F.2d 1127, 1129 (Fed. Cir. 1987).

¹⁵⁸ *Id.*

This dispute was settled with compromise, it appeared, on both sides. National has now claimed all the benefits of the settlement: the license to practice the invention, a negotiated royalty instead of the uncertainty of possible damages, freedom from threat of injunction, and saving of litigation cost; but denies that it was bound to refrain from attacking the validity of Joy's patent by requesting reexamination, because the Patent and Trademark Office is not a court.¹⁵⁹

To Judge Newman, once a party is afforded an opportunity to contest a patent and the party settles the matter, the same party should not be entitled to a second opportunity. In other words, once a party has received their day in court, the same party should not be entitled to a second bite at the apple.¹⁶⁰

The majority of the Federal Circuit, in contrast, is not nearly as concerned that reexamination will impact property rights. The most common scenarios for challenging a patent involve a reexamination proceeding with a staying of the litigation or a reexamination proceeding concurrently with litigation. The likelihood that an adjudicated infringer will be able to present a substantial new question of patentability or withhold prior art for a second change is extremely limited. The more likely outcome is that an adjudicated infringer will not waste the time and money to continue challenging a patent. As a result, there is little concern that allowing reexamination will affect the stability of patents, given that the opportunity to reexamine a patent after litigation will rarely arise. Similarly, the amount of resources wasted will be minimal, given that the litigation costs were already made and the reexamination costs are relatively small.

With regard to fairness, the majority of the Federal Circuit can rely on the safeguards of the substantial new question standard to protect a patentee after litigation occurs. In the event that a reexamination does arise after litigation, the Federal Circuit did not view the second

¹⁵⁹ *Id.* at 1131 (Newman, J., dissenting).

¹⁶⁰ *In re Constr. Equip. Co.*, 665 F.3d at 1261 (Newman J., dissenting) (“There is no support in law for repeated bites at the apple.”) (internal citations omitted).

opportunity as inherently unfair. If a patent is found invalid in reexamination, the monopoly right should never have been granted to begin with, and the requester is performing a service by purging an invalid patent from the rolls. That the requester also benefits is secondary to the reexamination statute serving its purpose of performing the curative function in the patent system.

In the end, the difference between the majority of the Federal Circuit and Judge Newman boils down to how to balance the relevant policy concerns. The majority of the Federal Circuit is untroubled by concerns about weakening property rights, reducing costs, or creating unfairness because these concerns occur so rarely. Even when a reexamination does occur after litigation, the Federal Circuit values removing erroneously issued patents as the primary purpose of reexamination statutes, worthy of the minimal additional cost and small measure of unfairness. Judge Newman, however, appears particularly concerned about addressing a small, but potent injustice, in which an infringer gains unfair advantage, disturbs settled property rights, and increases the costs of defending a patent—an injustice founded in constitutional issues.

C. Constitutional Issues

The disagreement between Judge Newman and the rest of the Federal Circuit also addresses constitutional issues involved with an administrative agency speaking to patent validity after federal courts have spoken. The majority of the Federal Circuit, relying on building precedents, does not find any issue with the PTO finding a patent invalid in reexamination after an Article III court has found a patent valid.¹⁶¹ The majority of the Federal Circuit reasoned in *Swanson* that a court finding a patent valid only means that the alleged

¹⁶¹ *In re Swanson*, 540 F.3d 1368, 1379 (Fed. Cir. 2008).

infringer failed to meet burden of showing patent was invalid by clear and convincing evidence. The patent is not found valid in court; it is found *not invalid*. A reexamination decision, in contrast, means that the PTO found a preponderance of the evidence supported invalidating the patent.¹⁶² Relying on *Ethicon*, the court found no Article III conflict because litigation and reexamination use two different standards of proof, and therefore the PTO decision is not reviewing the holding of the court, even though they are addressing the validity issue.¹⁶³

Judge Newman, not a member of the panel in *Ethicon* or *Swanson*, disagrees. Even if technically speaking the ruling of the PTO is not in direct contradiction with a federal court's decision, it has the impact of setting aside the decision because it reverses the holding on invalidity.¹⁶⁴ The constitutional plan places judicial power in the courts alone; legislative or executive authorities do not have the power to revise judicial decisions.¹⁶⁵ Accordingly, the PTO should not have any authority to address validity once the courts have ruled on validity. Contrary to the reasoning in *Swanson*, Judge Newman found the differing burdens of proof insufficient to find the rulings on validity non-contradictory. The different burdens of proof are merely a procedural issue, but the validity rulings are inconsistent in terms of substantive patent law.¹⁶⁶

The lynchpin of the reasoning of majority of the Federal Circuit is the extension of the decision in *Stevenson*. *Stevenson* held that a *court* may invalidate a patent previously declared valid in another *court*. The Federal Circuit in *Ethicon* extended this holding to allow the PTO to

¹⁶² *Id.*

¹⁶³ *Id.*

¹⁶⁴ *In re Baxter Int'l., Inc.*, 698 F.3d 1349, 1353-54 (Fed. Cir. 2012) (Newman, J., dissenting).

¹⁶⁵ *In re Constr. Equip. Co.*, 665 F.3d at 1258 (Newman, J., dissenting).

¹⁶⁶ *Id.* at 1261 (“[A] lower standard of proof in an administrative agency cannot override the finality of judicial adjudication. The burden of proof assigned to administrative bodies is a matter policy and procedure, not a change in substantive law.”).

review patent validity in *reexamination* after the patent was found to be valid in *court*. The Federal Circuit made this leap without any additional justification. As a result, in order to remain consistent with past precedent, the Federal Circuit endeavored to justify what Judge Newman views as a clear constitutional violation. In doing so, the Federal Circuit has granted the PTO a power not afforded to any other administrative agency—the power to review a federal court decision on patent validity. Relying on the *Ethicon* reasoning in *Swanson*, the court permitted the PTO to find a substantial new question of patentability even when the reexamination request was based on the same prior art considered in litigation.

The Federal Circuit and Judge Newman have entrenched their respective positions regarding the issue of allowing reexamination to occur after litigation. Each side has struck a balance between the competing policies involved and perhaps made some unconvincing arguments. Judge Newman is motivated by a perceived constitutional affront, fairness of patent contests, and stability of property rights in interpreting the reexamination statutes. The majority of the Federal Circuit is more concerned with applying precedent to interpret the statute, explaining away any constitutional conflicts and setting aside concerns that have only a minimal impact on fairness and property rights in the scheme of the patent system.

Part IV: Modification of Reexamination Rules

Closing the openings for potential abuses of the reexamination regime exposed in *Construction Equip. Co.* and *Baxter* will unlikely come from the Federal Circuit. In *Baxter*, the Federal Circuit itself has implicitly recognized that it could not conclude the PTO was barred from conducting the reexamination because of the final judgment during litigation without

overruling *Ethicon and Swanson*.¹⁶⁷ Moreover, the Federal Circuit has shown little interested in reversing course, most recently denying petition for rehearing en banc by a vote of 10-1 over the expected lone dissent of Judge Newman.¹⁶⁸ The Federal Circuit is more concerned with adhering to past precedent and address new issues by extending the reasoning of their earlier decisions. Unless fellow members of the panel are willing to join Judge Newman in dissenting, change on this issue will need to come from Congress.

Suggestions to amend the reexamination statutes are not new. Scholars have noticed flaws in the reexamination statutes, predicted the arrival of cases like *Construction Equip. Co.* and *Baxter*, and proposed solutions to address these problems. One suggestion is to prohibiting a party who was failed to invalidate a patent in litigation from requesting a reexamination based on issues that were raised or could have been raised during the civil suit.¹⁶⁹ This suggestion could be accomplished by revising the expansive language of 35 U.S.C. §302, “any party at any time,” to estop the “real party in interest” from attempting a reexamination once the issue has been previously adjudicated to finality. Adding a “real party in interest” requirement, it must be recognized, can add additional costs to reexamination because reexamination requests can be made anonymously. Therefore, added expense would be necessary to determine the “real party in interest.” However, this added expense would only be required if the patent was already litigated and may be borne by the patentee only if patentee suspects the request has come from a previous opponent. A “real party in interest” requirement would prevent the abuse found in *Baxter*, where Fresenius based its reexamination request on arguments that it failed to present at

¹⁶⁷ *In re Baxter Int’l., Inc.*, 678 F.3d at 1365.

¹⁶⁸ *Id.* at 1349.

¹⁶⁹ Johnson, *supra* note 9, at 339; See also Wayne B. Paugh, *The Betrayal of Patent Reexamination: An Alternative to Litigation, Not a Supplement*, 19 FED. CIR. B.J. 177, 227 (2009).

trial, but this amendment alone would not resolve the issue involved in *Construction Equip. Co.*, where Powerscreen initiated reexamination based on newly discovered prior art.

Placing a timing restriction on when a reexamination may be requested, however, would address the problem in *Construction Equip. Co.*, where reexamination was requested seven years after litigation concluded. Perhaps a statute of limitations could be imposed requiring a reexamination request be filed within a certain time period after a lawsuit is filed or concluded.¹⁷⁰ Basically, reexamination and litigation can occur independently or simultaneously for a period, but at some point reexamination would no longer be available to a party litigation. Congress imposed similar timing limitations on other post-grant proceedings, such the one-year window for petitioning for inter partes review.¹⁷¹

The above time and party restrictions, however, may only serve as a band aid applied to the expansiveness of “any party at any time” language of the reexamination statute. These amendments may preclude the specific abuses that have already occurred in *Construction Equip. Co.* and *Baxter*, but they may not go far enough to address all of the concerns raised by Judge Newman.

Ultimately the ideal would be for reexamination to become a true alternative to litigation.¹⁷² The preferred timeline would be to have reexamination, the less expensive procedure, precede litigation. One way to accomplish this goal is to changes to the rules to

¹⁷⁰ See, e.g., Marvin Motsenbocker, *Proposal to Change the Patent Reexamination Statute to Eliminate Unnecessary Litigation*, 27 J. MARSHALL L. REV. 887, 894 (1994).

¹⁷¹ 35 U.S.C. § 315(b) (2012) (“An inter partes review may not be instituted if the petition requesting the proceeding is filed more than 1 year after the date on which the petitioner, real party in interest, or privy of the petitioner is served with a complaint alleging infringement of the patent.”).

¹⁷² Motsenbocker, *supra* note 165, at 894-95.

incentivize parties to request reexamination in a timely manner by providing clearer guidelines for determining when a court will stay litigation.¹⁷³ Alternatively, the statute may be amended to require that reexamination be filed first before asserting patent invalidity as an affirmative defense in patent litigation or before suing for declaratory judgment.¹⁷⁴ Another option would be to improve the quality and speed of reexamination to have more experienced examiners, to allow reexamination to run its course before litigation gets off the ground.¹⁷⁵

Of course these amendments will make reexamination more expensive than it currently is, delay the remedy for a potential rival seeking a declaratory judgment (by requiring reexamination before litigation), and place a defendant in a weakened position in an infringement suit (fewer litigation strategy options). By speeding up the process of reexamination, improving the quality of reexamination, and requiring reexamination before any litigation, however, reexamination can become a true replacement mechanism for litigation, conserve judicial and PTO resources, and preempt the use of unfair tactics by adjudicated infringers.

In conclusion, the Federal Circuit's interpretation of the reexamination statutes has opened the door for potential abuses by adjudicated infringers. Judge Newman, the lone dissenter, has challenged the Federal Circuit to reverse course and interpret the reexamination statutes to preserve the constitutional plan, stabilize patent property rights, and level the litigation playing field. Action by the Federal Circuit appears unlikely given how entrenched the Federal Circuit position has become and how marginal the impact this issue has on the overall patent system, given how rarely a patent is invalidated in reexamination after the patent was found valid

¹⁷³ Wayne B. Paugh, *The Betrayal of Patent Reexamination: An Alternative to Litigation, Not a Supplement*, 19 FED. CIR. B.J. 177, 21314 (2009).

¹⁷⁴ Motsenbocker, *supra* note 165, at 894-95.

¹⁷⁵ *Id.*

in litigation. The results of *Construction Equip. Co.* and *Baxter*, however, appear to support Judge Newman's view that adjudicated infringers are abusing the reexamination system to achieve an unfair advantage. As a result, Congress should take action to amend the reexamination statutes to restore balance to the patent system by limiting the availability of reexamination after litigation and enhancing the effectiveness of reexamination as an alternative to litigation.