

Cost of patent reexamination may skyrocket

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On Jan. 25, 2012, the U.S. Patent and Trademark Office (PTO) published a Notice of Proposed Rulemaking to set forth its proposal to implement the supplemental examination provisions of the America Invents Act (AIA). The Notice included a proposal to substantially increase the fees for requesting "*ex parte* reexamination." This fee increase will certainly affect the number of such requests filed, likely at the expense of innovation.

Ex parte reexamination is a procedure that allows a third party to challenge the validity of an issued patent at the PTO, rather than in the courts. To request *ex parte* reexamination, the third party presents evidence to the PTO that someone invented the subject matter of the patent before the patentee. The PTO then assumes responsibility for the challenge to the validity of the patent, and the third party offers no further input and incurs no further expense.

Companies often consider *ex parte* reexamination when facing a charge of patent infringement. Seeking to invalidate patent claims via *ex parte* reexamination can provide several significant advantages over doing so in litigation. First, the patent can be challenged whether or not the requestor has been accused of infringing the patent. To bring a law suit, on the other hand, a controversy must exist between the parties, namely there must be an accusation that a patent has been infringed by the defendant. Second, unlike litigation, *ex parte* reexamination can be requested anonymously – an entity concerned with an existing patent need not identify itself to the patentee, and thus can avoid painting a target on its back. Third, the burden of proof in front of the PTO is lower – patents undergoing reexamination do not receive the presumption of validity that is given patents being challenged in litigation. Finally, the costs of challenging a patent through *ex parte* reexamination can be significantly lower than in litigation.

Currently, the requestor need only pay an *ex parte* reexamination request fee of \$2,520. Under the new rules, however, the fees due from a third party for filing a request for *ex parte* reexamination will increase by more than 700 percent, to \$17,750. The PTO justifies this increase by stating that, following an analysis of the costs to the Office, the existing fees are "not set at amounts that recover the Office's costs." Notably (and inexplicably), however, this dwarfs the combined fees for the filing, search, examination, issuance and publication of a new utility application, which together total only \$3,290 (having three independent claims and twenty total claims – the PTO charges for additional claims). Further, should a request for *ex parte* reexamination be refused, the PTO will keep a fee of \$4,320 for having processed the request, refunding the rest.

This significant increase in fees has a strong potential to negatively impact innovation in the high tech field. When facing a charge of infringement, businesses typically seek two things – time and low cost solutions. Under the existing fee structure, reexamination offers both – fees are low, required attorney time is minimal as compared with litigation, and once a patent is in reexamination, there is a good chance that a judge will "stay" (put on hold) any pending litigation on that patent until the PTO has rendered judgment on the reexamination, which can take several years.

Under the PTO's proposed fee structure, one of these advantages – low cost – is minimized, which increases the likelihood that cash-strapped start-ups or struggling entities will capitulate to the accusation of infringement and cease the accused activities even where substantial defenses exist. Indeed, the very companies most likely to be affected by this increase – newer, smaller companies that may not yet be profitable and may require venture capital funding (which is difficult to obtain when patent litigation is pending) – are most likely to be unable or unwilling to bear the added costs. These very companies, which often are formed to bring forth some new technology or advancement, may be forced to abandon their innovative work in the face of a charge of patent infringement as a result of the sharp increase in fees. What makes this particularly troublesome is that, historically, reexamination most often results in at least some patent claims being found invalid – according to the PTO, through Sept. 30, 2011, 92 percent of all requests for *ex parte* reexamination were granted, and of the patents reexamined, 77 percent had claims that were either amended in light of the prior art or cancelled altogether.

This proposed increase in fees has not yet taken effect. The PTO has published the proposed changes for comment, seeking the benefit of the public's views on the rules. The PTO is accepting comments through March 26, 2012. To provide comments, visit this website.

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