

Attenuated Judicial Review of Patent and Trademark Office Decisions: “Technical Amendment,” or Stacking The Deck Against Inventors?

“Upon what meat doth this our Caesar feed, that he is grown so great? ... Why, man, he doth bestride the narrow world like a Colossus, and we petty men walk under his huge legs and peep about to find ourselves dishonourable graves. Men at times are masters of their fates: The fault, dear Brutus, is not in our stars, but in ourselves, that we are underlings.”

— Wm. Shakespeare: *Julius Caesar*, I, ii, 148, 134

The March 4, 2010 “Managers’ Amendment” of S.515², the Senate’s 105-page version of the pending “Patent Reform Act of 2010”³—would, if enacted, do serious harm to the U.S. patent system by restricting a long-standing fundamental right of patent owners to seek judicial correction when

to re-evaluate the validity of one or more claims in the patent in light of published prior art cited by the requestor as raising a substantial new question of patentability of the patented subject matter. Reexamination may be either “*ex parte*” in which active participation during the prosecution phase is

the case may be, or on which the defendant seeks to base a motion to stay the litigation or to forestall an injunction.⁷

The March 2010 Senate bill would do serious harm to the U.S. patent system by restricting a right to seek judicial correction of PTO errors.

the Patent and Trademark Office (“PTO”) erroneously revokes a patent in a reexamination proceeding. Also, other rights of judicial review would be attenuated because the Managers’ Amendment would transfer venue from a court that views federal agency decisions somewhat skeptically to a court that seldom overrules them.

I. COURT REVIEW OF PATENT OFFICE DECISIONS

A. Patent Reexamination

“Patent reexamination” is a proceeding in the PTO wherein the owner of a patent, or any third party,⁴ files a request with the agency

restricted to the patent owner and the PTO or “*inter partes*” in which the requester (always a third party) as well as the patent owner participate actively throughout the proceeding.⁵ Increasing numbers of patents are being subjected to reexamination—both *ex parte* and *inter partes*. The choice of one or the other depends on when the patents were applied for and the party requesting reexamination.⁶ Such proceedings have become a common feature in tandem with court enforcement litigation by which the patent owner, or the party challenging the patent, seeks administratively to validate or invalidate the patent(s)-in-suit, as

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2. 111th Congress, document GRA10134, <http://judiciary.senate.gov/legislation/upload/PatentReformAmendment.pdf>.
3. The current House version of the proposed Patent Reform Act of 2010 is H.R. 1260.
4. A third-party requestor is statutorily defined as “a person requesting... reexamination... who is not the patent owner.” 35 U.S.C. § 100(c).
5. The history, similarities, and differences between *ex parte* and *inter partes* reexamination are explained further in K. Noonan, *Post-Grant Review of U.S. Patents: Will Past Be Prologue?* in this issue on pages 47-51.
6. Anyone may request *ex parte* reexamination; see, *supra* footnote 4. A patent owner may request *ex parte* reexamination of his or her patent, but not *inter partes* reexamination.
7. Nationwide, about 60% of all contested motions to stay U.S. district court proceedings pending reexamination of patents-in-suit are currently being granted. “LegalMedia Nationwide Report on Stays Pending Reexamination Decisions” (Sept. 2009). See for example, *E-Z-Go, et al v. Club Car Inc.*, Fed. Cir. Case No. 1-09-cv-00119 (2010) (“[T]he court is particularly mindful that were it to decide that the [patent-in-suit] is valid, such a finding is not binding on the PTO, and a contrary decision by PTO could result in a substantial waste of judicial resources”).



ALTERNATIVES to LEGISLATIVE PATENT REFORM

B. Judicial Review of PTO Decisions

A patent applicant or the owner of a patent in an *ex parte* reexamination who is dissatisfied with the PTO's decision may seek review in either one of two courts.⁸ In the type of cases relevant to this discussion, owners of patents in *ex parte* reexaminations⁹ who are dissatisfied with Board rulings on examiners' rejections may seek judicial review by appealing directly to the U.S. Court of Appeals for the Federal Circuit under § 141 of the *Patent Act*.¹⁰ Alternatively, patent owners can sue the PTO in the U.S. District Court for the District

never an opportunity to present live testimony in a trial-type setting, so this may be the only time that certain evidence can be submitted to any tribunal). Third, the Federal Circuit gives great deference to PTO fact-findings and will reverse the PTO only if there is no substantial evidence supporting the PTO's decision. In contrast, the D.C. District Court reevaluates evidence and factual findings from scratch, called *de novo* review. Thus, if patentability turns on a determination of what was and what was not known at the relevant time, or an interpretation of the

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of Columbia under § 145.¹¹ If the patentee chooses § 145 District Court review, the losing party, be it the patent owner or the PTO, can subsequently appeal to the Federal Circuit.¹²

The availability of D.C. District Court review of PTO decisions in *ex parte* reexaminations is crucial in several respects. First, an appeal to the Federal Circuit is decided on a closed record, that is, neither side may present new evidence—the court will only look at the paper record that was compiled during proceedings at the PTO. In contrast, in D.C. District Court review of *ex parte* reexaminations, the parties—both the patentee and PTO—may adduce new evidence, for example, live testimony, new affidavits, new test results and the like. Second, a District Court action can involve a full trial before a judge (in the PTO, there is almost

content of a prior art document or the like, then the plaintiff has two key advantages in D.C. District Court that are lacking in Federal Circuit appeals. The existence of this additional path of review thus serves as another check on the PTO and tends to promote accurate agency rulings.

The availability of two different jurisdictional routes of judicial review of PTO decisions has long been an accepted feature of the U.S. patent system.

C. The PTO Has Long Made Known Its Distaste for District Court Review

The PTO dislikes having to defend its decisions in District Court. As noted in the preceding section of this paper, the procedures in District Court make for a level playing field. Like all lawyers, the PTO's attorneys don't like to lose, even though their client is a govern-

ment agency whose nominal goal is to see that the laws are faithfully executed, not to win cases, and one would think that their mission to see justice done would preempt their desire to build a favorable win-loss record. Also, because the PTO is sued in District Court less often compared to the frequency of appeals in the Federal Circuit, and many private sector IP litigators have as much experience in trial courts as they do in purely appellate settings, the PTO's attorneys do not necessarily have an advantage in District Court.

The PTO's historic aversion to civil actions in District Court was pointed out in "*To Amend Section 52 of the Judicial Code and Other Statutes Affecting Procedures in the Patent Office: Hearings on H.R. 6252 and H.R. 7087 Before the House Committee on Patents, 69th Cong., 1st Sess. 80-81 (1926)*" and discussed at length in Judge Moore's dissent in the recent case of *Hyatt v. Doll*.¹³

8. 35 U.S.C. § 141, second sentence; 35 U.S.C. § 145, first sentence; §§ 146 and 306 and 28 U.S.C. § 1295(a)(4)(A). Dual paths of court review are not unique to the PTO. For example, decisions of the Department of Agriculture involving plant variety protection certificates (7 U.S.C. §§ 2321-2582) may be appealed directly to the U.S. Court of Appeals for the Federal Circuit under § 2461 or by civil action against the Secretary of Agriculture under § 2462. Another such agency is the Internal Revenue Service (review by the U.S. Court of Federal Claims or by the U.S. Tax Court depending on whether or not the amount of the tax in dispute has been paid). 28 U.S.C. §§ 1346 and 1507. Also, contractor's claims under the *Contract Disputes Act of 1978* (41 U.S.C. §§ 601-613) may be appealed either to a tribunal within the Federal Board of Contract Appeals or to the Court of Federal Claims. 28 U.S.C. §§ 1346(a)(2) and 1491(a)(2).

9. 35 U.S.C. §§ 302-307

10. 35 U.S.C. § 306 and § 141

11. 35 U.S.C. § 306 and § 145

12. 28 U.S.C. § 1295(a)(4)(C)

13. *Hyatt v. Doll*, 576 F.3d 1246, 1280, 91 USPQ2d 1865, 1892-92 (Fed. Cir. 2009), *vacated and en banc rehearing granted sub nom. Hyatt v. Kappos*, Fed.Appx., 93 USPQ2d 1871 (Fed. Cir. 2010) (nonprecedential).

Given the PTO's hostility to the long-standing right of judicial review of BPAI decisions by trial *de novo* in District Court, the PTO's rulemaking and pronouncements in 37 C.F.R. § 1.303 and MPEP § 1216(II) and § 2279 stand in irreconcilable conflict with 35 U.S.C. §§ 141, 145 and 306, and as such, constitute impermissible agency behavior. The principles of constitutional law and administrative law do not support the PTO's rulemaking effort to interpretively abrogate the specific statutory right to District Court review conferred by 35 U.S.C. §§ 145 and 306. Such rules and pronouncements should be judicially set aside as null and void.

II. THE MARCH 4, 2010 MANAGERS' AMENDMENT OF S.515—THE SENATE VERSION OF THE PATENT REFORM ACT OF 2010

A. *The PTO's Sought-After Eradication of District Court Review of PTO Decisions in Ex Parte Reexaminations*

The Managers' Amendment¹⁴ would cancel the long-established statutory right of *de novo* review of decisions in *ex parte* reexaminations in D.C. District Court on an open record. Nowhere is this mentioned in the Senate Press Release accompanying the Managers' Amendment. What seems to be happening here is that the PTO is seeking, through lobbying and with little or no public fanfare, to put an end to an existing route of judicial review that, while odious to the agency,¹⁵ has always been vitally important to parties appearing before it.¹⁶

The Managers' Amendment¹⁷ subtly revises the statute that for many years has provided inventors with access to appellate court review of PTO decisions. One part of the Amendment reads:

(b) REEXAMINATIONS—A party to a reexamination who exercises his right to appeal to the Patent Trial and Appeal Board pursuant [after an *ex parte* or *inter partes* reexamination] and who is dissatisfied with the final decision in that appeal may appeal the Board's decision only to the United States Court of Appeals for the Federal Circuit.

The current version of the statute¹⁸ only covers *inter partes* reexaminations, and leaves the D.C. District Court trial *de novo* option available to patent owners in *ex parte* reexaminations.

The Managers' Amendment¹⁹ would alter the Federal Circuit jurisdiction to synchronize it with the amendment set forth above, clarifying that the change is not an unintentional "typo", but a considered effort by the PTO to attenuate inventors' rights to protect their patents.

The Managers' Amendment²⁰ would retroactively implement exclusive Federal Circuit appellate jurisdiction (to the exclusion of the District Court) over the PTO decisions entered in all reexaminations "before, on, or after the date of enactment" of the Patent Reform Act.

B. *Loss of De Novo District Court Review Would Leave Patentees With No Opportunity to Present New Evidence*

Interactions among several existing and proposed provisions of PTO procedures create many instances in which District Court review is the *only* opportunity for a patentee to get a fair chance to correct a PTO error. Repeal of District Court review would deprive inventors of *ever* having a balanced opportunity to secure and preserve their patent rights.

Under current law, situations arise with some frequency in which District Court review is the only way an inventor has to rebut an error made by the PTO. For example, the Board has authority to raise new grounds of rejection on its own authority, at any time.²¹ In such cases, the Board's written decision may be the first time the patentee receives any notice of the rejection. In other instances, because the PTO's stated policy is to refuse all requests for enforcement the PTO's written procedural rules against examiners during examination,²² it is not uncommon that the first time an inventor receives a minimally-intelligible articulation of a rejection is in the Board's final written decision.²³ Under current law, District Court review may be the only timely option that an applicant has to rebut a PTO statement of a rejection.

The Managers' Amendment adds several new opportunities to sandbag applicants with new grounds for which District Court review is the natural error-protection

14. Amendment GRA10134 at page 65, § 6, "Patent Trial and Appeal Board," amending 35 U.S.C. § 6.

15. The PTO's dislike of District Court actions is discussed in section I.C. of this paper.

16. Noteworthy in this regard is the PTO's unsuccessful attempt in 2007 to insert into H.R. 1908, the immediate predecessor to the House version of the Patent Reform Act of 2009 (H.R. 1260), a Managers' Amendment by the bill's sponsor, Rep. Berman, a provision that would have altogether abolished trial *de novo* review under 35 U.S.C. § 145/§ 306 of BPAI decisions in *ex parte* reexaminations.

17. Amendment GRA10134, § 6(c), "Circuit Appeals," amending 35 U.S.C. § 141.

18. 35 U.S.C. § 141

19. Amendment GRA10134, § 6(c)(2), "Jurisdiction," amending 28 U.S.C. § 1295(a)(4)(A).

20. Amendment GRA10134, § 6(d), "Effective Date," amending 28 U.S.C. § 1295(a)(4)(A).

21. 37 C.F.R. § 41.50(b)

22. Patent and Trademark Office, Changes To Practice for Continued Examination Filings, Patent Applications Containing Patentable Indistinct Claims, and Examination of Claims in Patent Applications; Final Rule, 72 Fed. Reg. 46716, 46752 col. 2 (Aug. 21, 2007)

23. This appears to be the fact pattern in *Hyatt*, 576 F.3d at 1287-88, 91 USPQ2d at 1896-97.



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mechanism but for its repeal. The Managers' Amendment²⁴ permits "any person at any time to cite [prior art] to the Office" with a written explanation for how the prior art should be applied to invalidate the patent. This submission may be anonymous, giving parties an opportunity to circumvent some of the protections in the reexamination statutes that protect inventors against "drip, drip, drip" attacks by competitors seeking to deprive the patentee of access to funding, rather than against bona fide challengers to the patents on the merits. Market incumbents recognize that a bankrupt insurgent competitor is an even better result than mere invalidation of the insurgent's patents. Then, the Managers' Amendment²⁵ lands the PTO's second punch, by amending the PTO's authority to order *ex parte* reexamination, even in absence of request from the public statute, based on the prior art submitted "at any time."

District Court review may be the only opportunity that an inventor has to make a case, supported by evidence, against rejections that arise through these new avenues of attack, and will often be the least of several evils. Repeal of District Court review will directly harm patentees, especially those that depend on their patents for survival.

C. Transferring Venue from the D.C. Federal District Court to the Eastern District of Virginia

Another part of the Managers' Amendment²⁶ that warrants the attention of the patent and trademark communities is Section 8 that deals with venue. In it, the PTO has successfully lobbied for the inclusion of subsection 8(b) under the seemingly innocuous heading of "Technical Amendments Relating to Venue." It would require all civil

actions seeking *de novo* review of PTO decisions (including decisions of the PTO Trademark Trial and Appeal Board) to be brought henceforth in the Eastern District of Virginia instead of in the District of Columbia (as has been the right of patent applicants and patent owners in *ex parte* reexaminations since time immemorial).²⁷

Such a venue change could hardly be considered a mere "technical amendment." While that suburban location would suit the PTO just fine, because it is literally across the street from the PTO, it is certainly less convenient for plaintiffs. Also, not surprisingly, the administrative law expertise of the D.C. courts is far and away the highest of any court in the country. Most administrative law practitioners note that the District of Columbia courts, because of this expertise, tend to give closer scrutiny to agency decisions and are more skeptical when federal agencies try to short-cut the procedural protections that their rules purport to give the public. Practitioners also note that the Fourth Circuit, the appeals court that covers Virginia, is perhaps the court that is most deferential to agencies. The PTO itself is well aware of this difference between the two courts: then PTO Solicitor John Whealan gave a speech in New York in 2001 in which he explained that the PTO recognized the importance of forum shopping between the District of Columbia and Virginia and that forum shopping had been the PTO's motivation in seeking the 1999 statutory amendment²⁸ to provide that the PTO "shall be deemed, for purposes of venue in civil actions, to be a resident of [the Eastern District of Virginia], except where jurisdiction is otherwise provided by law." The Managers' Amendment would

henceforth route District Court reviews to the more PTO friendly and less expert courts in Virginia, and preclude appeals to the D.C. Circuit (whose administrative law jurisprudence is unparalleled) from District Court decisions not involving substantial questions of patent law.²⁹ Such appeals would have to go instead to the Eastern District of Virginia and to the Fourth Circuit in Richmond, VA.³⁰

D. Will the PTO Seek to Abolish District Court Review—Jurisdiction Over Its Decisions in Patent Applications?

Because there are substantial procedural similarities between *ex parte* reexaminations and the prosecution of patent applications, if the PTO succeeds in its legislative effort to abolish *de novo* District Court review in *ex parte* reexaminations, then it probably won't be long before the agency will lobby for the abolition of *de novo* District Court review of rejected patent applications. Thus, the patent community now finds itself at a crossroads. If the Federal Circuit in its forthcoming *en banc* rehearing of *Hyatt v. Kappos*³¹—a

24. Amendment GRA10134, § 5(g)(1), "Citation of prior art and written statements," amending 35 U.S.C. § 301.

25. Amendment GRA10134, § 5(g)(2), amending 35 U.S.C. § 303(a).

26. Amendment GRA10134 beginning at page 72, § 8, "Venue," amending 35 U.S.C. §§ 32, 145, 146, 154(b)(4)(A) and 295 and 15 U.S.C. § 1071(b)(4); see also H.R. 1260 at Sec. 10.

27. The 170-year history of providing review in the District of Columbia Courts is set forth in *Hyatt*, 576 F.3d at 1254-57, 91 USPQ2d at 1871-74.

28. 35 U.S.C. § 1(b) (1999)

29. The CAFC has exclusive appellate jurisdiction only over appeals from district court final judgments in cases that "arise under" the patent laws. 28 U.S.C. § 1295(a)(1). *Industrial Wire Products, Inc. (IWP) v. Costco Wholesale Corp.*, 576 F.3d 1516 (8th Cir. 2009).

30. 28 U.S.C. § 1294(1)

31. *Hyatt v. Doll*, 576 F.3d 1246, 1254-68, 91 USPQ2d 1865, 1871-85 (Fed. Cir. 2009), *vacated and en banc rehearing granted sub nom. Hyatt v. Kappos*, ___ F.3d ___, 93 USPQ2d 1871 (Fed. Cir. Feb 17, 2010) (nonprecedential).

case involving the prosecution of a patent application, rather than a reexamination—does not alter its panel decision, then the purpose of § 145 to provide a District Court *de novo* alternative to appeals to the Federal Circuit under § 141 would be undercut, as Judge Moore warned in her dissent in the court’s panel decision.³² If that happens, it will embolden the PTO in its campaign to achieve by a legislative salami tactic that, which until now, has been beyond the reach of the agency’s own rulemaking authority.

III. CONCLUSION

The PTO’s interpretative rulemaking and legislative lobbying on Capitol Hill reveal the agency’s ultimate goal of limiting the ability of patentees to seek correction of erroneous PTO decisions, thereby insulating BPAI rulings from meaningful review. Board decisions would be subject only to a deferential “substantial evidence” standard of review. The PTO would accomplish this by first abrogating as a heretofore *meaningful* recourse the fundamental right of patent owners in *ex parte* reexaminations to seek judicial review

of adverse decisions of the BPAI *either* by civil action in the District Court *or* by appeal to the Federal Circuit. This is what the PTO is now seeking to do.

Because the PTO is now attempting to circumvent current statutory provisions by abolishing civil actions in *ex parte* reexaminations altogether through legislation that will have catastrophic consequences, such legislation should be stricken from the current Managers’ Amendment of S.515. ■

³². See *Hyatt*, 576 F.3d at 1255 n.5, 91 USPQ2d at 1895 n.5, 1898.