

**THE S.515 “MANAGER’S AMENDMENT”:
NEGATIVE CONSEQUENCES FOR PATENT OWNERS
IN EX PARTE REEXAMINATIONS AND CALAMITOUS
REPERCUSSIONS FOR THE INVENTIVE COMMUNITY**

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SYNOPSIS.....	2
I. INTRODUCTORY BACKGROUND.....	3
A. <i>Patent Reexamination</i>	5
B. <i>Judicial Review of PTO Decisions on Patent Applications and in Ex Parte Patent Reexaminations</i>	7
C. <i>Civil Actions in District Court for De Novo Review of PTO Decisions</i>	8
D. <i>The PTO Has Long Made Known its Distaste for District Court Review</i>	11
II. THE MARCH 4, 2010 MANAGER’S AMENDMENT OF S.515 -- A PANDORA’S BOX OF NEGATIVE CONSEQUENCES.....	13
A. SEC. 6. PATENT TRIAL AND APPEAL BOARD – <i>Abolition of District Court Review-Jurisdiction Over PTO Decisions in Ex Parte Reexaminations</i>	14
B. <i>Loss of De Novo District Court Review Would Destroy the Right of Patent Owners to Present New Evidence in Court</i>	16
C. SEC 8. VENUE – <i>Relocation of Venue from the D.C. Federal District Court to the Eastern District of Virginia</i>	16
D. <i>What is There to Stop the PTO From Seeking the Abolition of District Court Review-Jurisdiction Over the Agency’s Decisions on Patent Applications?</i>	18
III. CONCLUSION.....	19

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Synopsis. De novo trial-court review has provided an important recourse for those seeking relief from erroneous decisions of the Patent and Trademark Office in ex parte cases. Over the past century-and-a-half, the right to seek such judicial review has stood as a judicial safeguard against unlawful agency action. Despite that fact -- or because of it -- the PTO has had an historic aversion to such review, particularly in the District of Columbia. That aversion has now manifested itself in the March 4, 2010 "Manager's Amendment" of S.515, the current Senate version of the proposed "Patent Reform Act of 2010." If enacted in its present form, S.515 would contain provisions harmful to the U.S. patent system by depriving patent owners of their long-standing, fundamental right to de novo judicial review and correction when the agency erroneously revokes a patent in an ex parte reexamination. Also, the bill would attenuate the right of patent owners to seek optimally effective de novo review because it would transfer venue to a forum that tends to review federal agency decisions with less circumspection than the present one. In light of these concerns, such provisions should be deleted from S.515.

"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 dishonored graves. . . . Men at times are masters of their fate: The fault, dear Brutus, lies not in our stars, but in ourselves, that we are underlings."

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

America's patent system, currently administered in large part by the Patent and Trademark Office ("PTO"), was created when Congress enacted the Patent Act of 1790² pursuant to its power "to promote the Progress of . . . the useful Arts by securing for limited Times . . . to Inventors the exclusive Right to their . . . Discoveries."³ Over the ensuing 220 years, Congress continued to exercise that power through successive legislative enactments the most recent comprehensive manifestation of which has been the Patent Act of 1952,⁴ codified as title 35 of the *United States Code* ("the 1952 Act").⁵

² Act of Apr. 10, 1790, ch. 7, 1 Stat. 109-12.

³ Among the exclusive powers given to Congress by the U.S. Constitution, the power to enact laws relating to patents is set forth in Art. I, § 8, cl. 8. This was a major departure from the Articles of Confederation entered into by the original thirteen states and which remained in effect from 1781 to 1789. Those Articles did not mention the granting of patents by the central government. See James Madison's commentary in *The Federalist* No. 43 (January 23, 1788). For a contemporary analysis of the "Science and Useful Arts" clause of the Constitution, see Edward C. Walterscheid, *To Promote the Progress of Science and Useful Arts: The Anatomy of a Congressional Power*, 43 IDEA 1-81 (2002).

⁴ Act of Jul. 19, 1952, ch. 950, § 1, 66 Stat. 803.

Initially, the *1952 Act* incorporated some of the provisions in pre-existing statutes and treaties, and codified part of the then-current case law. It in turn has been revised a number of times by our nation's elected representatives in Congress by amending and deleting certain sections, and adding others, and always for the expressed purpose of improving the rights of the inventive community, the overall fairness of the patent system, and the administration of justice. Unfortunately, however, we are now confronted by efforts of the PTO in pressing for legislation in areas that otherwise would exceed its own rulemaking authority. If enacted, such legislation would have an immediate negative impact on patent owners and serious long-term consequences for the nation's patent system.

I. INTRODUCTORY BACKGROUND

The March 4, 2010 "Manager's Amendment" of S.515 is the 105-page current Senate version⁶ of the pending "Patent Reform Act of 2010." Consisting of eighteen sections, it represents the latest episode in the ongoing effort on Capitol Hill to restructure the U.S. patent system in response to lobbying pressures from business, political, and bureaucratic interests that in many respects are not in alignment with each other nor with those of inventors, owners and legitimate users of patents and inventions, and the public at large.⁷

⁵ The 1952 Act currently consists of four parts encompassing 35 U.S.C. §§ 1-376. Part I is entitled "United States Patent and Trademark Office" and includes §§ 1-42; Part II is entitled "Patentability of Inventions and Grant of Patent Rights" and includes §§ 100-212; Part III is entitled "Patents and Protection of Patent Rights" and includes §§ 251-318; and Part IV is entitled "Patent Cooperation Treaty" and includes §§ 351-376. The lacunal numbering of the sections indicates provisions that have been deleted since their enactment, or sections that have yet to be added.

⁶ 111th Congress, document GRA10134, the full text of which can be found at: [http://judiciary.senate.gov/legislation/upload/Patent ReformAmendment.pdf](http://judiciary.senate.gov/legislation/upload/Patent%20ReformAmendment.pdf)

⁷ The House version of the proposed Patent Reform Act of 2010 is H.R. 1260 (March 3, 2009). That bill does not present the issues and concerns addressed in this article.

Despite the generally favorable reaction to the Manager's Amendment as a whole by various commentators and bar associations, certain provisions in SEC. 6 and SEC. 8 should be deleted from the bill because if enacted they will abolish the fundamental statutory right of patent owners to de novo review by trial in district court of adverse PTO decisions in ex parte patent reexaminations, thereby leaving direct appeals to the Court of Appeals for the Federal Circuit ("CAFC") as the only recourse. But because of the CAFC's highly deferential "substantial evidence" standard of review of PTO decisions on a closed evidentiary record, in the absence of reversible legal error, the PTO's Patent Trial and Appeal Board (the presumptive new name for the Board of Patent Appeals and Interferences) would for practical intents and purposes become the tribunal of last resort for patent owners. Also, the ability of other entities, *e.g.*, patent applicants, to seek effective de novo review -- and correction -- of PTO decisions would be hampered because the Manager's Amendment would divert that review to a venue (the Eastern District of Virginia) where the decisions of federal agencies are perceived to be viewed with less circumspection than in the current venue (the District of Columbia).

These changes would send the patent system down a slippery slope toward the eventual eradication of organic statutory provisions in the *1952 Act* for de novo judicial review in other types of ex parte matters decided by the PTO, including not only patent applications, of course, but also patent term adjustments,⁸ and disciplinary proceedings,⁹ thereby profoundly altering America's patent system in negative ways by abrogating long-standing statutory rights to specific judicial relief for those aggrieved by the agency's rulings. The question to be asked is: Why is the PTO doing this? For

⁸ 35 U.S.C. § 154(b)(4).

⁹ *Id.* at § 32.

what purpose? The answer lies in the agency's desire, as a manifestation of the power of the administrative state, to limit adjudication of its decisions, which it cannot otherwise lawfully do within its current rulemaking authority.

A. Patent Reexamination

"Patent reexamination" denotes a statutory proceeding conducted in the PTO at the request of the patent owner, or any third party,¹⁰ during the period of enforceability of the patent,¹¹ whereby the agency that issued the patent in the first instance can re-evaluate the validity of one or more claims in the patent in light of published prior art cited by the requester as raising "a substantial new question of patentability" of the patented (claimed) subject matter.¹² Reexamination can be either "ex parte" in which active participation during the prosecution phase is restricted to the patent owner and the PTO, or "inter partes" in which both the requester (always a third party) and the patent owner participate actively throughout the proceeding.¹³

Ex parte patent reexamination was instituted when Congress enacted the *Patent Law Amendments Act of 1980*¹⁴ which included the addition of Chapter 30 (initially entitled "Prior Art Citations to Office and Reexamination of Patents")¹⁵ to Part III¹⁶ of

¹⁰ A third-party requester is statutorily defined as "a person requesting . . . reexamination . . . who is not the patent owner." 35 U.S.C. § 100(e).

¹¹ The period during which a patent can be enforced lasts six (6) years following the expiry of the statutory term of the patent under 35 U.S.C. § 154(a)(2) after which time a claim for money damages cannot be asserted. *Id.* at § 286. See *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 225 U.S.P.Q. 243, 249 (Fed. Cir. 1985).

¹² 35 U.S.C. § 303(a) [ex parte reexamination]; *id.* at § 313 [inter partes reexamination]. See also the PTO's *Manual of Patent Examining Procedure* ("MPEP") at §§ 2216 and 2242.I.

¹³ The history, similarities, and differences between ex parte and inter partes reexamination are explained in chapters 2200 and 2600, respectively, of the MPEP.

¹⁴ Act of Dec. 12, 1980, Pub. L. No. 96-517, 94 Stat. 3015, 3015-17.

¹⁵ In 1999 the title of Chapter 30 was amended in § 4602 of the *American Inventors Protection Act* ("AIPA") so that it now reads "Prior Art Citations to Office and Ex Parte Reexamination of Patents."

the 1952 Act. Since its inception, Chapter 30 has consisted of 35 U.S.C. §§ 301-307 which have remained essentially unchanged. Ex parte reexamination has been applicable since July 1, 1981 to patents within the period of their judicial enforceability.¹⁷

Congress' purpose in establishing patent reexamination was to "strengthen investor confidence in the certainty of patent rights by creating a system of administrative reexamination of doubtful patents."¹⁸ Correlative to and consistent with that legislative intent and purpose, increasing numbers of patents are being subjected to reexamination -- both ex parte and inter partes. The choice of one or the other depends in large part on when the patent was applied for¹⁹ and the party requesting reexamination.²⁰ Such proceedings have become a recognized adjunct to court enforcement litigation by which the patent owner, or the party challenging the patent, may seek to administratively validate or invalidate the patent(s)-in-suit, as the case may be, or on which the challenger may seek to base a motion to stay the litigation or to forestall an injunction.²¹

The adjective "Ex Parte" was inserted in order to distinguish ex parte reexamination in Chapter 30 from inter partes reexamination in Chapter 31.

¹⁶ See *supra* note 5.

¹⁷ See *supra* note 11; *infra* note 19.

¹⁸ H.R. Rep. 96-1307.

¹⁹ Ex parte reexamination was made applicable to utility and plant patents granted after June 30, 1981; see, *infra* Part I.B. Inter partes reexamination is applicable to original (as opposed to reissue) utility and plant patents applied for after November 28, 1999; see *Cooper Techs. Co. v. Dudas*, 536 F.3d 1330, 85 U.S.P.Q.2d 1465 (Fed. Cir. 2008).

²⁰ Anyone, including the patent owner, can request ex parte reexamination of a patent. Only a third party (see *supra* note 10) not in privity with the patent owner can request inter partes reexamination.

²¹ Nationwide, about 60% of all contested motions to stay U.S. district court proceedings pending the reexamination of patents-in-suit are currently being granted. *LegalMedia Nationwide Report on Stays Pending Reexamination Decisions* (Sept. 2009). See, e.g., *E-Z-Go v. Club Con Inc.*, Fed. Cir. Case No. 1-09-cv-00119 (Jan. 12, 2010) ("[T]he court is particularly mindful that were it to decide that the [patent-in-suit] is valid, such finding is not binding on the PTO, and a contrary [prior] decision by the PTO could result in a substantial saving of judicial resources").

B. Judicial Review of PTO Decisions on Patent Applications and in Ex Parte Patent Reexaminations

The *Administrative Procedure Act* (“APA”) at 5 U.S.C. § 706 codifies the general understanding that parties aggrieved by government agency action have presumptive standing to seek judicial review under the three-part test (pure question of law, finality, and immediate hardship) for fulfillment of the “ripeness” and “case or controversy” requisites for justiciability and Article III court-jurisdiction.

Currently, patent applicants²² or owners of patents in ex parte reexaminations²³ who are dissatisfied with the PTO’s decisions under 35 U.S.C. § 134 can seek judicial review in either of two fora. This is because the PTO is one of those agencies within the Executive Branch of the federal government whose final decisions in certain types of ex parte cases are statutorily subject to separate, dual jurisdictional routes of review by Article III courts.²⁴ Thus, inventors and patent owners who are dissatisfied with PTO rulings²⁵ on examiners’ rejections of patent applications and claims in issued patents, respectively, can seek judicial review by appealing directly to the U.S. Court of Appeals for the Federal Circuit (“CAFC”).²⁶ Alternatively, they can sue the PTO in the U.S.

²² *Id.* at §§ 111-133.

²³ *Id.* at §§ 302-307.

²⁴ U.S. Const. art. III. 35 U.S.C. §§ 141, second sentence; *id.* at § 145, first sentence; *id.* at §§ 146 & 306; and 28 U.S.C. § 1295(a)(4)(a). Dual routes of court review are not unique to the patent system. 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 (“CAFC”) (*id.* at § 2461) or by civil action against the Secretary of Agriculture (*id.* at § 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 & 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 Contracts Dispute Board, or to the Court of Federal Claims. (28 U.S.C. §§ 1346(a)(2) & 1491(a)(2)). The contractor thus has a choice of fora from either of which an appeal to the CAFC may be taken. *Id.* at § 1295(a)(3) & (a)(10).

²⁵ 35 U.S.C. § 134.

²⁶ *Id.* at § 141 (patent applications); *id.* at § 306/§ 141 (ex parte reexaminations).

District Court for the District of Columbia to obtain review by trial de novo.²⁷ These alternative routes of judicial review have always been non-redundant and mutually exclusive.²⁸

The availability of two different jurisdictional routes of judicial review of PTO decisions has been a feature of our patent system since long before the inception of ex parte reexamination in 1980²⁹ wherein Congress conferred upon patent owners a similar dual right of judicial review.³⁰

**C. Civil Actions in District Court for
De Novo Review of PTO Decisions**

Under 35 U.S.C. § 306 the patent owner in an ex parte reexamination can seek judicial review of an adverse PTO decision by either of the two aforementioned routes. De novo review by trial in district court can be had by commencing a civil action against the Director of the PTO under § 145 which is incorporated by reference in § 306. The text of § 306 is contained in a single sentence that reads as follows:

CHAPTER 30 - PRIOR ART CITATIONS TO OFFICE AND
EX PARTE REEXAMINATION OF PATENTS

* * *

§ 306. Appeal.

The patent owner involved in a reexamination proceeding under this chapter may appeal under the provisions of section 134 of this title, and may seek court review under the provisions of sections 141 to 145 of this title, with respect to any decision adverse to the patentability of any original or proposed amended or new claim of the patent.

(Added Dec. 12, 1980, Pub. L. No. 96-517 § 1, 94 Stat. 3016.)

²⁷ *Id.* at § 145 (patent applications); *id.* at § 306/§ 145 (ex parte reexaminations).

²⁸ *Id.* at § 141, second sentence; *id.* at § 145, first sentence; 28 U.S.C. § 1295(a)(4)(A).

²⁹ *See supra* note 14.

³⁰ Act of Dec. 12, 1980, Pub. L. No. 96-517 § 1, 94 Stat. 3016, codified at 35 U.S.C. § 306.

From a historical perspective, a civil action against the PTO is tantamount to what was known in chancery courts as a bill in equity, seeking non-monetary declaratory relief against the sovereign (*viz.*, overruling the agency's grounds, for example, in refusing to grant a patent to an applicant, or to issue a certificate of patentability of the claims in a patent in an *ex parte* reexamination). Unlike a direct appeal to the CAFC under 35 U.S.C. § 306/§ 141, a civil action under § 306/ § 145 in an *ex parte* reexamination, just as in cases under § 145 involving patent applications, is an intermediate trial proceeding³¹ which is part and parcel of the overall reexamination process³² because the losing party (be it the plaintiff patent-owner or the defendant PTO) can appeal to the CAFC as of right.³³ A civil action under § 306 / § 145 in essence seeks to set aside the PTO's decision as being wrong on the facts, wrong on the law, or both, through court trial in which the issues that were before the agency are adjudicated in light of the facts that "may appear" in the case, *i.e.*, that were of record before the Board and additional evidence that the parties may choose to present. The final judgment of the district court, if favorable to the plaintiff patent-owner, "authorizes" the PTO to issue a certificate of reexamination if the PTO has not appealed to the CAFC or if appealed, the CAFC has affirmed that judgment.

³¹ Such trials are invariably bench trials because the Seventh Amendment right to trial by jury generally does not apply to civil actions against the Federal Government. See Jon L. Craig, *Civil Actions Against The United States Its Agencies, Officers, and Employees*, 2d ed., vol. 1, § 1:37 (2002). However, jury trials may be possible in cases where a third party is allowed to intervene as a co-defendant under Fed.R.Civ.P. 24(b)(1)(B) ("Permissive Intervention") particularly if intervention occurs before issue has been joined. See, *Pregis Corp. v. Doll*, Case No. 1:09-cv-467 (E.D. Va. 2010) which was a civil action against the PTO that was tried to a jury because a private party was a co-defendant.

³² The U.S. Supreme Court has characterized civil actions under the statutory antecedent of § 145 as proceedings that are "in fact, and necessarily, a part of the application for the patent." *Gandy v. Marble*, 122 U.S. 432, 439, 7 S. Ct. 1290, 30 L.Ed. 1223 (1887); see also *Butterworth v. United States ex rel. Hoe*, 112 U.S. 50, 61, 5 S. Ct. 25, 28 L.Ed. 656 (1884).

³³ 28 U.S.C. § 1295(a)(4)(C).

The availability of de novo district court review of PTO decisions in ex parte reexaminations is crucial to the public interest in the enforceability of valid patents. It also promotes fairness in the overall process in several ways. First, an appeal to the CAFC is decided on a closed fact-record, *i.e.*, neither side is allowed to present new evidence -- the court will only look at the paper record that was compiled during proceedings in the PTO. In contrast, the parties -- both the plaintiff patentee and the defendant PTO -- in a district court's de novo review of an ex parte reexamination may adduce new evidence, for example, live testimony (expert as well as factual), new affidavits, new test results, and the like -- all subject to cross-examination in an adversarial courtroom proceeding quite unlike that in an administrative appeal in the PTO. Second, a district court action involves a plenary trial before a judge who has the power to subpoena third-party witnesses and compel production of evidence that would otherwise be unavailable (in the PTO, one rarely if ever has an opportunity to present live testimony in a trial-like setting), so this may be the only time that certain evidence can be adduced in any tribunal. Third, the CAFC will defer to PTO fact-findings, and will disagree with the agency only if there is no substantial evidence in the record to support the decision on the issues presented.³⁴ In contrast, the district court reevaluates the totality of the evidence and fact-findings de novo, *i.e.*, from scratch, when further evidence is presented.³⁵ Thus, if patentability turns on a determination or assessment of what was and what was not known at a particular relevant point in time, or an interpretation of the content of a prior-art document, or the like, then the plaintiff has two key advantages in district court that are lacking in CAFC

³⁴ *Dickinson v. Zurko*, 527 U.S. 150, 165 (1999).

³⁵ *Winner Int'l Royalty Corp. v. Wang*, 202 F.3d 1340, 1345-46 (Fed. Cir. 2000).

appeals -- the right to present new evidence, and to obtain a “hard look” review by a “fresh pair of eyes” in an Article III trial court whose judgment is in turn appealable as of right to the CAFC under a “clear error” standard of review. This type of judicial review thus serves as an important check on PTO decision making, and tends to promote the accuracy of ultimate rulings.

**D. The PTO Has Long Made Known
its Distaste for District Court Review**

The PTO dislikes having to defend its decisions in trials de novo in district court for reasons having no demonstrable relevance to the PTO’s widely publicized concerns over inadequate PTO funding and professional staffing, or the patent application backlog including the growing number of administrative appeals pending before the Board. Ironically, by precluding civil actions in district court, the Manager’s Amendment would unduly burden not only patent owners financially, but also the PTO. Patent owners are understandably concerned lest they should find themselves in need of supplementing the evidentiary record which they cannot do in the CAFC. Therefore, the tendency would be for them to seek to ensure a complete record for the CAFC to review by larding the record in the PTO and burdening an already overworked agency with every shred of conceivably relevant – and otherwise potentially unnecessary -- evidence.

Rather, one suspects that the reason has to do with the fact that, as noted in the preceding section of this article, district court trials make for a level playing field in contests between the PTO and the private sector. Like all lawyers, the PTO’s attorneys don’t like to lose, even though their client is a government agency whose mission is not to win cases but rather, to see to it that those patent laws which it is charged with administering are faithfully applied to cases before it. Hence, one has a right to expect

that the PTO's mission to see justice done would preempt the agency's 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 from its decisions to the CAFC, and many private-sector IP litigators feel just as comfortable in trial courts as they do in purely appellate settings, the PTO does not necessarily have an advantage in district court when it comes to litigation expertise.

The PTO's historic aversion to civil actions in district court was evident eighty-five years ago in congressional proceedings entitled: (1) *"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 H. Comm. on Patents, 69th Cong., 1st Sess. 80-81 (1926)"* and (2) *"To Amend the Statutes of the United States as to Procedure in the Patent Office and the Courts: Hearings Before the S. Comm. on Patents, 69th Cong. 2d Sess. 13-14 (1926)"*. These are discussed in Judge Kimberly Moore's dissent in the CAFC's panel decision last year in *Hyatt v. Doll*.³⁶

The PTO's hostility to district court de novo review of PTO decisions explains the agency's rulemaking and pronouncements in 37 C.F.R. § 1.303(d) and MPEP § 2279. They stand in irreconcilable conflict with 35 U.S.C. §§ 141, 145, and 306, and as such constitute impermissible agency behavior. The law does not support the PTO's rulemaking effort to interpretively abrogate the specific statutory right to district court review conferred upon patent owners by 35 U.S.C. § 145/§ 306. Invalidation of such ultra vires rulemaking and pronouncements through intra vires court action has recently been sought by a patent owner and opposed by PTO in an ex parte

³⁶ See *infra* note 39.

reexamination.³⁷ Enactment of the Manager's Amendment in its present form would achieve the PTO's purpose by swallowing the agency's own unlawful rulemaking.

II.

THE MARCH 4, 2010 MANAGER'S AMENDMENT OF S.515 -- A PANDORA'S BOX OF NEGATIVE CONSEQUENCES

The Manager's Amendment of S.515 would demolish the long-established statutory right to district court trial de novo review in ex parte reexaminations on an open record (35 U.S.C. § 145/§ 306) as an alternative to appeals in the CAFC under 35 U.S.C. § 141 on a record fixed below (*id.* at § 144) at the PTO. Nowhere is this mentioned in the Senate Press Release³⁸ accompanying the Manager's Amendment. What is happening here is that the PTO is seeking -- through lobbying, without fanfare, without much if anything in the way of public legislative debate or visible input from stakeholders, and perhaps without informing the relevant congressional staff as to the seriousness of the effect that such legislation would have on the private sector -- to

³⁷ *Sigram Schindler Beteiligungsgesellschaft MbH v. Kappos*, 93 U.S.P.Q.2d 1756 (E.D. Va. 2009) is the first case in which the question was raised regarding district court trial de novo/review-jurisdiction over BPAI decisions in ex parte patent reexaminations requested following the November 29, 1999 effective date of the AIPA. In *Sigram Schindler*, the defendant in a patent infringement action (Cisco Systems Inc.) requested ex parte reexamination of the patent-in-suit in 2007. The PTO granted the request, and reexamined the patent. Following the examiner's final rejection of the claims, the patent owner appealed to the BPAI. During that administrative appeal, the patent owner sued the PTO in a declaratory judgment action under the APA, 5 U.S.C. § 706(2)(C), challenging on *Chevron* grounds and under 35 U.S.C. § 2(b)(2) the legality of the agency's interpretive rule, 37 C.F.R. § 1.303(d) which purports to preclude district court trial de novo/review-jurisdiction in ex parte reexaminations requested post-November 28, 1999. In response to the parties' cross-motions for summary judgment, the court dismissed the action only because the Complaint did not present a justiciable case or controversy due to non-ripeness since the BPAI had not yet rendered a decision which, if adverse to plaintiff, would allow court review. And the fact that the BPAI's decision had not yet been handed down rendered plaintiffs purported injury contingent and speculative. Hence, the decision in *Sigram Schindler* left this important question unresolved.

³⁸ See 79 PTCJ 560 (03/12/10).

extinguish an existing right of judicial review that, albeit odious to the agency,³⁹ has always been vitally important to the inventive community.⁴⁰

**A. SEC. 6. PATENT TRIAL AND APPEAL BOARD -
Abolition of District Court Review-Jurisdiction
Over PTO Decisions in Ex Parte Reexaminations**

Subsection (a) of SEC. 6 on pages 65-6 of the Manager's Amendment is entitled "COMPOSITION AND DUTIES." One of its provisions would change the name of the Board of Patent Appeals and Interferences to the "Patent Trial and Appeal Board". This change reflects the fact that under S.515 patent interferences would no longer take place as a result of the proposed conversion of the U.S. patent system from a "first-to-invent" to a "first-inventor-to-file" rule of priority. In addition to matching the existing name of the PTO's Trademark Trial and Appeal Board, it also carries with it the aura of something more than the current name connotes.

Subsection (b) of SEC. 6 on pages 66-7 is entitled "ADMINISTRATIVE APPEALS" and would rewrite 35 U.S.C. § 134(b) in relevant part as follows:⁴¹

³⁹ The PTO's historic aversion to being a defendant in a civil action as opposed to being an appellee in the CAFC was discussed in Judge Moore's dissent in *Hyatt v. Doll*, 576 F.3d 1246, 1254-68, 1280-82, 91 U.S.P.Q.2d 1865, 1871-85, 1891-92 (Fed. Cir. 2009), *vacated and en banc rehearing granted sub nom. Hyatt v. Kappos*, 93 U.S.P.Q.2d 1871 (Fed. Cir. 2010).

⁴⁰ 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 2010 (H.R. 1260), a manager's amendment by that 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. Now the PTO has returned to the well to try to achieve the same goal in S.515.

⁴¹ For many years 35 U.S.C. § 134 has read in pertinent part as follows (emphasis added):

§ 134 Appeal to the Board of Patent Appeals and Interferences

* * *

(b) *Patent owner.* –A patent owner in any reexamination proceeding may appeal from the final rejection of any claim by the primary examiner to the Board of Patent Appeals and

(b) PATENT OWNER. — A patent owner, having once paid the fee for such an appeal, may appeal the final rejection of any claim by the primary examiner to the Patent Trial and Appeal Board in-

(1) any ex parte reexamination; . . .

Subsection (c) of SEC. 6 on pages 67-8 is entitled “CIRCUIT APPEALS” and under the heading “(1) IN GENERAL,” it would rewrite 35 U.S.C. § 141 into four parts (a) - (d). Part (b) would read as follows (emphasis added):

“(b) REEXAMINATIONS - A party to a reexamination who exercises his right to appeal to the Patent Trial and Appeal Board pursuant to section 134(b) or (c) 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.”

Since 35 U.S.C. § 134(b), referenced in the foregoing excerpt and as would be amended in SEC. 6(b), applies explicitly to ex parte reexaminations according to § 134(b)(1), the proposed revision of § 141 would expressly do away with the right of patent owners in ex parte reexaminations to trial de novo review in district court that has existed under 35 U.S.C. § 306/ § 145 since the inception of ex parte reexaminations in 1981 (a right which, incidentally, the amendment would not foreclose to patent applicants -- at least not yet).⁴² Curiously, the Manager’s Amendment neglected to change § 306 in order to reconcile it with the proposed revision of § 141. Without further lobbying by the PTO to correct the obvious legislative oversight in the Manager’s Amendment, the Senate will probably allow the inconsistency to slip through and infect the *1952 Act*.

Subsection (c)(2) of SEC. 6 on page 69 under the heading “JURISDICTION” would alter the CAFC’s jurisdiction under 28 U.S.C. § 1295(a)(4)(A) to synchronize it with the proposed amendment of 35 U.S.C. § 141. This confirms that the

Interferences, having once paid the fee for such appeal.

* * *

⁴² See *infra* Part II.D.

proposed changes in § 134 and § 141 are a clear reflection of the PTO's conscious effort to attenuate a patent owner's right to a full day in court.

Subsection (d) of SEC. 6 on page 70 is entitled "EFFECTIVE DATE" and would retroactively implement the Federal Circuit's exclusive appellate jurisdiction (to the exclusion of the district court) over the PTO's decisions entered in all reexaminations "before, on, or after the date of enactment" of S.515.

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 the PTO's procedures can create situations in which district court review is the *only* opportunity for a patent owner in an ex parte reexamination to have a fair chance at judicial correction of a PTO error.

For example, the PTO can raise new grounds of rejection of claims during an administrative appeal.⁴³ In such cases, the Board's written decision may be the first time that the patent owner receives any notice of the new rejection. When that happens, de novo district court review would be the only chance for rebuttal based on evidence in a court trial. Repealing the right of district court review would directly harm patent owners by depriving them of any chance of *ever* having a balanced opportunity to seek validation of enforceable patents.

C. SEC. 8. VENUE - Relocation of Venue from the D.C. Federal District Court to the Eastern District of Virginia

Another part of the Manager's Amendment that warrants the attention of the patent community is SEC. 8 –VENUE which begins on page 72. In it, the PTO has

⁴³ 37 C.F.R. § 41.50(b).

successfully lobbied for the inclusion of subsection (b) under the seemingly innocuous heading of “TECHNICAL AMENDMENTS RELATING TO VENUE.” Subsection (b) 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 thenceforth in the Eastern District of Virginia instead of in the District of Columbia⁴⁴ as has been the right of patent owners since the inception of ex parte reexamination and of patent applicants since time immemorial.⁴⁵

There appears to be at least a two-fold purpose in the PTO’s promotion of this seemingly innocuous amendment. First, SEC. 8 would require plaintiffs and their counsel in civil actions against the agency to go traipsing with their litigation bags, bankers boxes, and other trial accoutrements, not to mention their experts and fact witnesses, out to a Federal courthouse in Virginia where the agency’s operations are now physically housed for the most part in a complex of office buildings literally across the street from the Albert V. Bryan Courthouse in Alexandria,⁴⁶ or in Newport News, Norfolk, or Richmond. To some practitioners, such a venue change could hardly be considered a mere “technical amendment.” While a suburban courthouse location might be quite convenient for the PTO, compared to the E. Barrett Prettyman Federal Courthouse in downtown Washington, D.C., it certainly would be less so for plaintiffs.

Second, and ominously, the amendment would thenceforth preclude appeals to the D.C. Circuit (whose administrative law jurisprudence is unequalled by that of any

⁴⁴ Or in other venues in civil actions against the PTO involving trademark cases under 15 U.S.C. § 1071(b)(4).

⁴⁵ The 170-year history of de novo review in the D.C. Federal District Court is recounted in *Hyatt*, 576 F.3d at 1254-57, 91 U.S.P.Q.2d at 1871-74.

⁴⁶ 35 U.S.C. § 1(b).

other circuit and which views actions of federal agencies with justifiable skepticism) from district court decisions not involving substantial questions of patent law.⁴⁷ Such appeals would have to go to instead to the Fourth Circuit in Richmond, VA which “embraces” the Eastern District of Virginia.⁴⁸

D. What is There to Stop the PTO From Seeking the Abolition of District Court Review-Jurisdiction Over its Decisions on Patent Applications?

The answer is nothing. The procedures for ex parte reexamination and the prosecution of patent applications are in relevant respects essentially similar,⁴⁹ and the PTO’s aversion to being sued in the one case is the same as in the other. Therefore, if the PTO succeeds in its legislative effort to abolish trials de novo under 35 U.S.C. § 145/ § 306 in ex parte reexaminations, then it shouldn’t surprise anyone that the agency would soon thereafter lobby for the abolition of the same recourse in cases involving patent applications. Thus, the patent system now stands at the edge of a precipice. If the CAFC in its forthcoming en banc rehearing of *Hyatt v. Kappos*⁵⁰ -- a case involving the prosecution of a patent application -- does not reverse its earlier panel decision, then the purpose of § 306/§ 145 civil actions in district court as an alternative to § 141 appeals to the CAFC would be undercut and the distinction between them would become blurred and indistinguishable as Judge Moore warned in her dissent in the

⁴⁷ 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).

⁴⁸ 28 U.S.C. § 1294(1).

⁴⁹ 35 U.S.C. § 305 states in relevant part that “reexamination will be conducted according to the procedures established for initial examination under the provisions of §§ 132 [‘Notice of rejection; reexamination’] and 133 [‘Time for prosecuting application’] of this title.”

⁵⁰ See *supra* note 37.

court's panel decision.⁵¹ If that happens, it will embolden the PTO in its desire to achieve by a legislative salami tactic that which, until now, the agency itself has been unable to do by overreaching without getting caught with its fingers in the rulemaking cookie jar.⁵²

III. CONCLUSION

The PTO's legislative lobbying on Capitol Hill that has resulted in the insertion of SEC. 6 and SEC. 8 into the March 10, 2010 Manager's Amendment of S.515 reveals the agency's goal of insulating its decisions from meaningful de novo judicial review. Because the PTO's decisions are subject only to a highly deferential "substantial evidence" standard of review by the CAFC, the presumptively renamed "Patent Trial and Appeal Board" would in effect become the review-tribunal of last resort, giving it a status tantamount to that of a de facto Article III court from which there would be no practical recourse in the form of real judicial review in virtually all ex parte cases decided by the agency so long as its rulings are supported by "substantial evidence." The PTO would accomplish this as it now seeks to do in S.515 by first abrogating the

⁵¹ See *supra* note 39.

⁵² See *Tafas v. Dudas*, 541 Fed. Supp. 2d 805, 86 U.S.P.Q.2d 1623 (E.D. Va. 2008), *aff'd in part and vacated in part sub nom Tafas v. Doll*, 559 F.3d 1345, 90 U.S.P.Q. 2d 1129 (Fed. Cir. 2009), *en banc rehearing granted* July 6, 2009; *motion to dismiss appeal granted and motion for vacatur denied sub nom. Tafas v. Kappos*, November 13, 2009. This was a consolidated civil action against the PTO by Triantafyllos Tafas and by GlaxoSmithKline (GSK) under the APA, 5 U.S.C. § 706, challenging the agency's final rules implementing (i) a limitation on the number of continuations and requests for continued examination of applications and (ii) a restriction on the number of claims as an alternative to submitting "examination support documents" in applications. The district court enjoined the implementation of the rules as being beyond the PTO's rulemaking authority under 35 U.S.C. § 2(b)(2). The PTO later rescinded the rules by voluntarily removing them from the *Code of Federal Regulations*. 74 Fed. Reg. 52686 (Oct. 14, 2009). At the same time, the PTO together with one of the plaintiffs (GSK) sought to end the case by moving to dismiss the agency's appeal from, and to vacate, the district court's summary judgment (injunction). The CAFC denied the motion insofar as it sought to vacate the district court's summary judgment, thereby happily preserving the status of the case as precedent in opposing future PTO attempts at ultra vires rulemaking.

fundamental, meaningful and necessary right of patent owners seeking judicial review of adverse PTO decisions in ex parte reexaminations to choose either civil actions in the district court or appeals to the CAFC. After that, could anyone doubt that the abolition of the corresponding right of patent applicants would be on the agency's future legislative agenda?

Consistent with the PTO's hostility to the long-standing right, enshrined in our patent laws, of judicial review of its decisions by trial de novo in district court, the PTO is now seeking to have Congress abolish that right in ex parte reexaminations through legislation that will have foreseeable, negative consequences. Such legislation should be stricken from the current Manager's Amendment of S.515.
