

UNITED STATES PATENT AND TRADEMARK OFFICE

REPORT TO CONGRESS

on

INTER PARTES REEXAMINATION

Executive Summary

The United States Patent and Trademark Office (USPTO) examines patent applications and grants patents that satisfy the criteria set forth by statutory and case law. The American Inventors Protection Act (AIPA), signed into law on November 29, 1999, made a number of landmark patent reforms, including the establishment of an *inter partes* reexamination procedure which can be employed as an alternative to the existing *ex parte* reexamination procedure. This report is in response to the legislative requirement of section 4606 of the AIPA. Section 4606 states that:

Not later than 5 years after the date of the enactment of this Act, the Under Secretary of Commerce for Intellectual Property and Director of the United States Patent and Trademark Office shall submit to the Congress a report evaluating whether the *inter partes* reexamination proceedings established under the amendments made by this subtitle are inequitable to any of the parties in interest and, if so, the report shall contain recommendations for changes to the amendments made by this subtitle to remove such inequity. *

This report addresses (1) the progress of the *inter partes* reexamination procedure since its establishment, and (2) the results of the USPTO's internal evaluations and round table meeting with the USPTO's customers to identify any inequities and challenges associated with maintaining a viable *inter partes* reexamination procedure. Based upon this review, the USPTO recommends amending the Patent Act in three areas to improve *inter partes* reexamination by:

- Clarifying the *inter partes* reexamination estoppel provisions.
- Permitting the requester of an *inter partes* reexamination additional opportunities to provide input as to Office actions.
- Extending the requester's statutory 30-day period for comment after the patent owner responds to an Office action, or to permit the USPTO Director to set the period for comment by rule.

* Pub. L. 106-113, 113 Stat. 1501A-571, §4606 (1999).

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Background

The United States Patent and Trademark Office (USPTO) examines applications for U.S. patents and grants patents based upon statutory criteria and controlling case law. The basis for the U.S. patent system is found in Article 1, Section 8, Clause 8, of the U.S. Constitution, which provides that Congress shall have the power:

To promote the progress of science and useful arts, by securing for limited times to . . . inventors the exclusive right to their . . . discoveries.

Congress established the USPTO and granted it authorities based on this constitutional provision. The authority granted by Congress provides the USPTO with a limited role in reconsidering patentability decisions after patents are granted. A post-grant review of patent claims under which third parties can request USPTO review takes place only under limited circumstances, including:

- (1) When a patentee files an application for reissue of a patent under 35 U.S.C. § 251 to correct at least one error in the patent.
- (2) When an applicant and a patentee claim the same invention and an interference is declared pursuant to 35 U.S.C. § 135 between the patentee and the applicant, and the applicant seeks judgment based on the unpatentability of patent claims.
- (3) When a patent owner or third party requests the reexamination of a patent by means of either *ex parte* reexamination (35 U.S.C. § 302) or *inter partes* reexamination (35 U.S.C. § 311).

Congress has, over time, incrementally added to the range of proceedings within the USPTO's jurisdiction under which third parties can request USPTO review of issued patents.

Congress introduced *ex parte* reexamination in 1980 to provide a vehicle for a third party or patent owner to obtain reexamination of a patent.¹ *Ex parte* reexamination of patents, and the procedures for same, were established by Congress to serve as an expedited, low-cost alternative to patent litigation for reviewing only certain aspects of patent validity, based on patents and printed publications.

¹ Pub. L. 96-517, 94 Stat. 3016, § 1 (1980).

Subsequent Congressional review indicated infrequent use of *ex parte* reexamination, primarily because a third party who requested reexamination was unable to participate in the examination stage of the reexamination after initiating the reexamination proceeding. Interested parties suggested that the volume of lawsuits in the Federal District Courts would be reduced if third parties were encouraged to, and able to, use reexamination procedures that provided an opportunity for them to present their case for patent invalidity at the USPTO during the examination stage of the proceeding. To address those concerns and provide such an opportunity, Congress enacted the "Optional *Inter Partes* Reexamination Procedure Act of 1999" as Subtitle F of the "American Inventors Protection Act of 1999" (AIPA).²

Under the *inter partes* reexamination procedure, the third party could participate in the examination stage of the reexamination proceeding, appeal to the USPTO's administrative Board of Patent Appeals and Interferences (BPAI) and participate in the patent owner's appeal to the BPAI. The AIPA retained the existing *ex parte* reexamination procedure intact and separate from the newly enacted *inter partes* reexamination procedure.

More specifically, the optional *inter partes* reexamination procedure provided potential reexamination requesters with a stand-alone procedure permitting more requester participation than the existing *ex parte* reexamination procedure. The optional *inter partes* reexamination procedure permits third-party requesters to: (1) submit a written comment each time the patent owner files a response to an "Office action" on the merits issued by the USPTO; (2) appeal an adverse decision of the patent examiner to the BPAI; and (3) to have full participation rights in a patent owner's appeal to the BPAI. The AIPA did not expressly provide third-party requesters the ability to appeal further to the Court of Appeals for the Federal Circuit, nor to participate in the patent owner's appeal to the Court. In addition, pursuant to the 1999 AIPA enactment, an estoppel adverse to a third-party requester (which does not exist in *ex parte* reexamination) would attach, if the requester is unsuccessful in the *inter partes* reexamination proceeding. The requester would be estopped from later asserting in any civil action, or in a subsequent *inter partes* reexamination, the invalidity of any claim finally determined to be valid and patentable on any ground the third-party requester raised or could have raised in the *inter partes* reexamination. (35 U.S.C. 315(c)). Also, the requester would be estopped from later challenging in a civil action any "fact" determined in the *inter partes* reexamination. (Section 4607 of the Optional *Inter Partes* Reexamination Procedure Act of 1999, uncodified)

In 2002, in order to make the optional *inter partes* reexamination procedures a more attractive alternative to litigation, the AIPA's *inter partes* reexamination practice was expanded to provide third parties the right to appeal to the U.S. Court of Appeals for the Federal Circuit and to participate in the patent owner's appeal to the Court.³ Congress

² Pub. L. 106-113, 113 Stat. 1501A-571, § 4606 (1999).

³ *21st Century Department of Justice Appropriations Authorization Act*, Pub. L. 107-273, 116 Stat. 1758, 1899-1906 § 13202 (2002).

enacted sections 13105 and 13106 of subtitle A of the 21st Century Department of Justice Appropriations Authorization Act (Pub. L. 107-273). Sections 13105 and 13106 (1) provide third party *inter partes* reexamination requesters with the right to appeal to the Court of Appeals for the Federal Circuit and to participate in the patent owner's appeal to the Court; and (2) clarify that reexamination (both *ex parte* and *inter partes* reexamination) may be based on a patent or printed publication previously cited by or to USPTO, or considered by USPTO, as long as a substantial new question of patentability is raised. The estoppel provisions of the Optional *Inter partes* Reexamination Procedure Act of 1999 were not, however, deleted nor clarified by the Justice Appropriations Authorization Act of 2002. Such is the situation for *inter partes* reexamination, as it currently exists.

AIPA, section 4606 of the Optional *Inter Partes* Reexamination Procedure Act of 1999, uncodified, includes the requirement to assist Congress in its continuing oversight of patent operations. The USPTO must submit to the Congress, within five years of the 1999 AIPA enactment, a report evaluating whether the *inter partes* reexamination proceedings established by the Act are "inequitable to any of the parties in interest." If inequity is determined to exist, the USPTO's report must then contain "recommendations for changes...to remove such inequity."

Progression of USPTO Post-Grant Review

In preparing this report, a brief review of the progression of the USPTO's post-grant review role in the patent system is helpful to show (a) how, by way of revisions to the patent statute, the USPTO's post-grant review role in the patent system has grown; yet, (b) none of these post-grant review procedures alone, or collectively, has proven sufficient to optimize the USPTO's post-grant review capability.

For the duration of modern patent history, a patentee could file an application for reissue of a patent under 35 U.S.C. 251 to correct at least one error in the patent. If a patent owner did so, the patent claims were open to post-grant review by the USPTO. In 1982, third parties were permitted by rule (37 CFR 1.291) to file a "protest" against the reissue application, challenging the patent claims on both prior art grounds, and non-prior art grounds of unpatentability. Post-grant review by way of reissue is limited, however, to the situation where the patent owner elects to take action (by filing a request for reissue). In 1984, section 135 of the Patent Act was amended to allow issues of patentability, as well as priority, to be included in interference proceedings.⁴ This post-grant review vehicle is limited, however, to the situation where a patent contains claims conflicting with that of a pending application, and the requirements of 35 U.S.C. 135 are satisfied. Apart from interference and reissue, a third party may challenge the patentability of patent claims in the Office only via *ex parte* or *inter partes* reexamination; however, such a challenge may be based only on prior art provided by patents or printed publications.

As for *ex parte* reexamination, potential challengers have regarded this vehicle as an insufficient mechanism because after a reexamination is ordered, the third party's

⁴ Pub. L. 98-622, 98 Stat. 33831 (1984).

participation is limited to one statutory reply prior to the examination process, and such reply may be filed only if the patent owner files a pre-examination optional statement. As a result, *ex parte* reexamination has not been utilized by third parties to the degree envisioned in 1980.

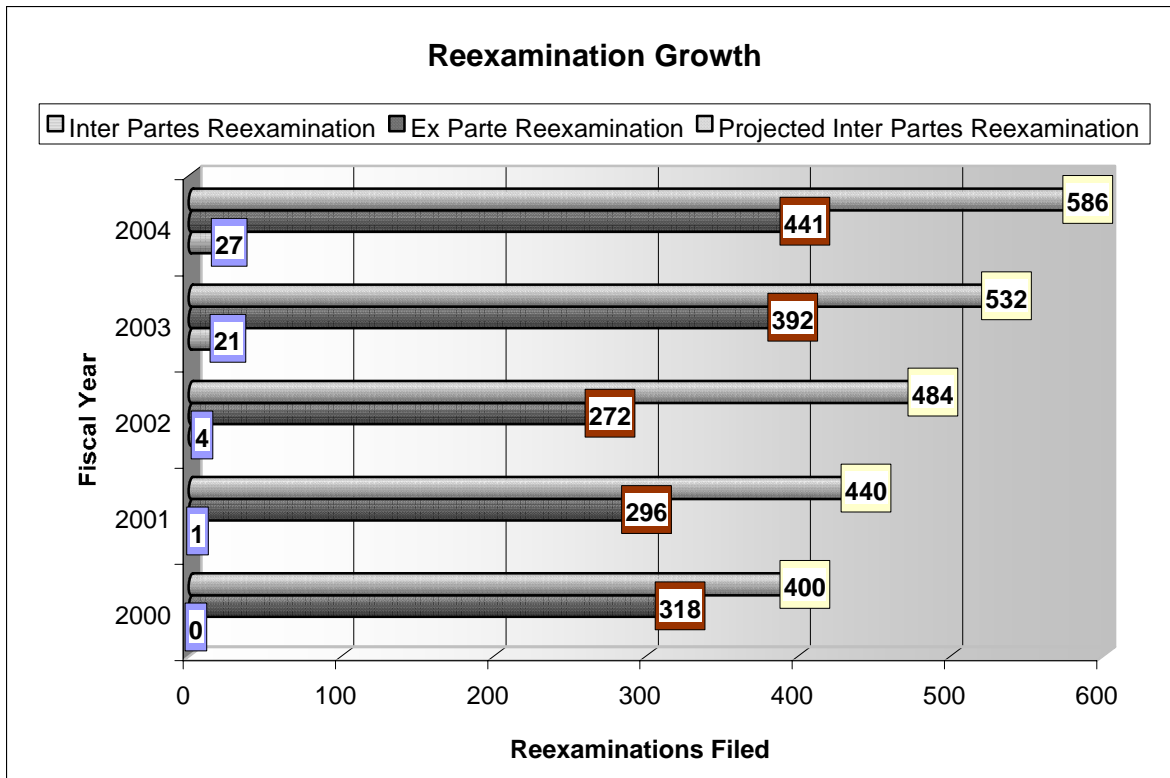
The *inter partes* reexamination procedure established in 1999 was intended to address this apparent defect as to third-party requester participation and was introduced to provide an inexpensive way, as compared with litigation, for a third party who discovers new prior art to challenge the patent in the USPTO and then participate in both the examination and appeal stages of the proceeding.

However, certain limitations of the 1999 *inter partes* reexamination statute resulted in it being rarely used. In the first two years after enactment, only five *inter partes* requests were filed. One limitation of the 1999 enactment that appeared to chill *inter partes* reexamination filing involved the degree of appeal rights of the third-party requester. As enacted, on November 29, 1999, *inter partes* reexamination permitted third-party requester appeals to the BPAI and participation in patent owner appeals to the BPAI. *Inter partes* reexamination did not, however, expressly provide for a third-party requester to appeal to the Court of Appeals for the Federal Circuit, nor did it permit participation in patent owner appeals to the Court. On November 2, 2002, Congress remedied this apparent drawback by amending the *inter partes* reexamination procedure to provide the third-party requester with an express right to appeal to the Court and to participate in patent owner appeals to the Court.

Congress did not, however, address other limitations of the *inter partes* reexamination process which have also contributed to its being rarely used. Of particular interest are the provisions for attachment of estoppel to an unsuccessful third-party requester of an *inter partes* reexamination. Patentees insisted upon, and Congress legislated via the 1999 statute, that a challenger in an *inter partes* proceeding would be bound by its result by way of estoppel, including in subsequent litigation. However, the lack of such procedural mechanisms as discovery and cross-examination that would be available in litigation has apparently resulted in challengers being unwilling to invoke *inter partes* reexamination and risk its estoppel effect.

Another unaddressed limitation of the process is the effective date of the *inter partes* reexamination statute. The filing of an *inter partes* reexamination request is only applicable to patents that were issued from patent applications which were filed on or after enactment of *inter partes* reexamination on November 29, 1999. All issued patents and all patent applications that were pending prior to enactment (and subsequently issued as a patent) are excluded from eligibility for *inter partes* reexamination.

These limitations of the *inter partes* reexamination process have had a dramatic effect on the anticipated filings for *inter partes* reexamination. The USPTO had projected to receive approximately 400 *inter partes* reexamination requests in the first year it was effective, with an increase of ten percent per annum as more patents filled the eligibility pool each year. However, as illustrated in the chart below, the number of filings did not increase at the rate anticipated.



As observed from the chart, (1) the number of requests for *inter partes* reexamination was far below initial projections, and (2) the introduction of *inter partes* reexamination practice had a negligible effect on the number of *ex parte* reexaminations filed. In fiscal year 2004, for example, the USPTO received over 350,000 utility patent applications and issued almost 170,000 utility patents. Over the past five years, the USPTO has received over 1,600,000 patent applications and issued almost 900,000 patents. Yet, in the nearly five years that the procedure has been available, only 53 *inter partes* reexamination requests were filed.⁵

USPTO Round Table Discussion and Request for Comments

As an aid for developing a record for consideration in preparing this report required by the Congress, the USPTO sponsored a public round table discussion on February 17, 2004. In addition, the Office solicited comments from interested parties through a Federal Register notice dated December 30, 2003 (68 *Federal Register* 75217). Ten parties participated in the round table discussion and written comments were received from an additional seven parties. The full text of the round table proceedings is attached to this report.

⁵ These *inter partes* reexamination requests included 26 patents in mechanical technologies, 14 in electrical arts, 10 in chemical arts, and 3 in biotechnology.

Analysis of Comments

As a result of the round table discussion and internal USPTO evaluation of the *inter partes* reexamination process, the following inequities⁶ were identified:

1. The current *inter partes* reexamination process provides a high risk of estoppel attaching to a third-party requester. As outlined in §§ 315(c) and 317(b) of Title 35 of the United States Code, a third party is estopped from asserting the invalidity of a patent claim determined to be patentable during an *inter partes* reexamination proceeding as to all issues which were raised or “could have been raised” during the *inter partes* reexamination proceeding, except for “newly discovered prior art unavailable to the third-party requester.” In the view of round table participants, it is not clear how extensive a prior art search must be in order to avoid the “could have been raised” estoppel or to satisfy the exception that a prior art issue could not have been raised if the prior art was “unavailable” to the third party. In the section-by-section analysis of S. 1948 (Cong. Rec., 17 Nov. 1999: S14720), “unavailable” prior art was defined as prior art that was “...not known to the individuals who were involved in the ...*inter partes* reexamination proceeding on behalf of the third-party requester and the USPTO.” The current USPTO position was posted in the *Official Gazette* 1234:97 (May 23, 2000) and states: “The question of whether an issue could have been raised must be decided on a case-by-case basis, evaluating all the facts and circumstances of each individual situation.” It is further suggested that an “all encompassing” definition might not account for unanticipated facts that could arise in the future. The statute thus leaves open whether prior art that was not discovered in a search performed by the third party will be deemed prior art that was “unavailable” or “not known,” or if the “unavailable” standard only applies to prior art that was not published at the time the *inter partes* reexamination request was filed.

The estoppel provision is the most frequently identified inequity that deters third parties from filing requests for *inter partes* reexamination of patents. While there is widespread agreement that the estoppel provisions should be better defined, the extent of such definition would appear to be dependent on the future role of *inter partes* reexamination proceedings. The role of *inter partes* reexamination may change if a new post-grant review practice is enacted. Such a post-grant review practice will be discussed in some detail below.

2. In instances where the patent owner does not respond to USPTO Office actions (e.g., when all claims are found patentable by the patent examiner), a third-party requester is precluded from presenting input on the Office actions until the appeal stage of the *inter partes* reexamination proceeding. It may be desirable to permit the requester to present input on Office actions even if the patent owner fails to respond, i.e., to provide an independent right to the requester to comment once for each Office action that is generated by the USPTO.

⁶ While the statutory requirement did not define “inequity” – for purposes of this report it shall be assumed to mean any systemic unfairness arising from the system to a patentee (e.g., independent inventor or small business) or another stakeholder within the patent system.

3. The requirement in § 314(b)(3) of Title 35 of the United States Code that the USPTO must receive comments from the third-party requester within 30 days after the date of service of the patent owner's response may pose an undue burden on the third-party requester and hinder the requester's ability to effectively respond to issues raised in an *inter partes* reexamination. Because of the very short time period for comments, a third party, in its haste to prepare comments within the 30-day statutory period, may inadvertently not adequately raise an issue and would then be estopped from later raising the issue that was not adequately raised. Extending the requester's comment period to more than 30 days, or authorizing the Director of the USPTO to set the period for response by rule, would benefit the third-party requester in preparing its comments after the patent owner's response to an Office action.

4. A reexamination requester's challenge to a patent is limited to prior art patents and printed publications. Other validity-related questions, such as operability, enablement, written description, and prior use or sale are not available for challenging the existing patent claims in *inter partes* (or *ex parte*) reexamination proceedings. To address this shortcoming of *inter partes* reexamination, a proposed post-grant review process is outlined in the USPTO's 21st Century Strategic Plan, which is discussed below. The post-grant review process, titled "Post-Grant Review," is intended to be the appropriate forum for validity-related issues which include, in addition to prior art issues, those of enablement, written description, and prior use or sale. With an effective post-grant review process in place, all validity-related issues could be addressed during a time period at the beginning of a patent's term where third parties may request a Post-Grant Review of the patent. The time period set in the USPTO's proposal to request a Post-Grant Review of a patent is expected to be long enough to satisfy most validity-related issues. *Inter partes* reexamination requests would then be appropriate for parties that have discovered prior art outside the time period to request review of the patent under Post-Grant Review. If this comes about, *inter partes* reexamination would become a more effective vehicle for addressing the fact that new relevant prior art patents and printed publications can very well surface at any time during a patent's life. Accordingly, the USPTO does not support expanding the grounds of challenging the validity of a patent in the reexamination process beyond prior art patents and printed publications, since such issues should be resolvable at the front end of the patent's term via the proposed Post-Grant Review process.

5. A small entity fee for *inter partes* reexamination does not exist; thus, some third parties who are small entities may be deterred by the *inter partes* reexamination filing fee. A small entity fee could encourage more small entities to file *inter partes* reexaminations. As to the discrepancy between the fee paid and the cost associated with USPTO processing of reexaminations, it is noted that the internal cost associated with processing and acting on *inter partes* reexaminations is already greater than the fee charged for handling the processing and examination of a reexamination proceeding.

6. The legislation was not made retroactive to applications filed before November 29, 1999; therefore, *inter partes* reexamination cannot be used to challenge most patents that are currently in effect. Making all enforceable patents eligible for *inter partes* reexamination would greatly increase the patent pool from which to generate *inter partes*

reexamination requests. This will not, however, by itself, solve the problem of the public making wide use of *inter partes* reexamination. As noted above, almost 900,000 patents have issued since the *inter partes* reexamination procedure was enacted, yet only a minute fraction of these patents were subject to third-party challenge via *inter partes* reexamination proceedings. This indicates that there are issues other than the pool of patents eligible for *inter partes* reexamination that may be deterring a third party from requesting *inter partes* reexamination of a patent alleged to be unpatentable.

7. Prior to May of 2004, there was a potential of abusing *ex parte* reexamination practice to effectively obtain an *inter partes* procedure. The availability of this avenue may have deterred parties from filing *inter partes* reexamination requests as follows: A third party could achieve an alternative to *inter partes* reexamination not having any attachment of estoppel (which exists for *inter partes* reexamination, but not for *ex parte* reexamination) by filing multiple, sequential reexamination requests based on the same substantial new question of patentability as the original request. Thus, the filing of an *inter partes* reexamination request to achieve the increased requester participation result might be avoided. To address this inequity, the Office amended § 2240 of the Manual of Patent Examining Procedure in May 2004. This amendment of the Manual put into operation a new policy whereby the same prior art may be used to start a second reexamination during the pendency of the first reexamination "only if the prior art cited raises a substantial new question of patentability which is different than that raised in the pending reexamination proceeding." In addition, a proposed rule package currently under development would implement, by regulation, this policy change. It is too soon to evaluate the effects of this change made by the USPTO.

USPTO's Proposed Post-Grant Review Process

The post-grant review process (titled "Post-Grant Review) proposed in the USPTO's 21st Century Strategic Plan (available on the USPTO web site at www.uspto.gov) and submitted to Congress in February of 2002, offers a comprehensive and desirable way to address patentability issues after a patent has been awarded. More recently, the need for a Post-Grant Review process was reported in the June 24, 2004, USPTO testimony before the House Judiciary Subcommittee on Courts, the Internet, and Intellectual Property.⁷ The proposed Post-Grant Review would provide a review model that is more comprehensive than, and different from, reexamination. Specifically, Post-Grant Review would provide a genuinely contested case presided over by panels of USPTO administrative patent judges. Closely controlled discovery and cross-examination would be available in the review, upon the challenger's presenting sufficient grounds that one or more of the patent claims are unpatentable.

⁷ See Tab 3.

Recommendations

The USPTO recommends that the patent statute be amended to improve the *inter partes* reexamination procedures. The 21st Century Strategic Plan proposes the development and enactment of a Post-Grant Review process. Should Congress elect to enact an effective alternative to *inter partes* reexamination, such as Post-Grant Review process, and after an appropriate period within which to analyze its utilization and effectiveness, the USPTO will make further recommendations as to the need to retain *inter partes* reexamination side-by-side with a Post-Grant Review process. In the interim, the USPTO anticipates that the below recommended improvements to the current *inter partes* reexamination policy will provide a more attractive post-grant mechanism for testing the patentability of patents.

The USPTO's recommendations, in response to the inequities identified above, are as follows:

1. The USPTO recommends retaining, in some form, an estoppel provision for *inter partes* reexamination. Given the development of the Strategic Plan's Post-Grant Review process, the Office anticipates relatively few requests under the *inter partes* reexamination procedure. With an effective Post-Grant Review process in place, *inter partes* reexamination requests would only be appropriate for parties in limited circumstances; for example, that have discovered prior art outside the time period for requesting reconsideration under the Post-Grant Review process. It is therefore essential to place an estoppel provision with a high burden on third parties requesting *inter partes* reexamination in order to avoid requests intended to stall or hinder the development of a patentee's invention late in a patent's life.

However, the current estoppel provisions do require further clarification of the requirement for third parties to raise all issues that "could have been raised" except for new prior art that was "unavailable." Specifically, the broad requirement for a third party to raise all issues that "could have been raised" when making the request for *inter partes* reexamination has been identified as the primary deterrent for a third-party challenge to the patentability of a patent under the *inter partes* reexamination procedure, since the standard for such is not defined. In addition, the degree to which the "unavailable" prior art exception applies is also unclear. Accordingly, the USPTO recommends that Congress further define the extent and nature of the estoppel risks imposed upon third parties requesting *inter partes* reexamination of a patent. The USPTO would be pleased to work with the Congress and interested parties in developing such provisions.

2. The USPTO recommends that Congress amend current *inter partes* reexamination practice to permit the third-party requester to present input on Office actions even if the patent owner fails to respond. This amendment would provide an independent right to the requester to comment once for each Office action generated by the USPTO.

3. The USPTO recommends that Congress extend the third-party requester's comment period to be more than 30 days, or alternatively, to authorize the Director of the USPTO to set the period for response by rule. The current 30-day comment period has been identified as unduly burdensome on the third-party requester of *inter partes* reexamination.