107TH CONGRESS
1st Session
HOUSE OF REPRESENTATIVES
REPORT
107–121

APPEALS IN PATENT REEXAMINATION PROCEEDINGS

JUNE 28, 2001.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. SENSENBRENNER, from the Committee on the Judiciary, submitted the following

R E P O R T

[To accompany H.R. 1886]

[Including cost estimate of the Congressional Budget Office]

The Committee on the Judiciary, to whom was referred the bill (H.R. 1886) to amend title 35, United States Code, to provide for appeals by third parties in certain patent reexamination proceedings, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

CONTENTS

PURPOSE AND SUMMARY

The bill, H.R.1886, repeals a prohibition which bars judicial review of certain patent *inter partes* reexamination decisions. The legislation would merely permit the third-party requester in an *inter partes* reexamination to appeal the decision by the U.S. Patent and Trademark Office (PTO) to the U.S. Court of Appeals for the Federal Circuit (hereinafter "Federal Circuit").

89–006

BACKGROUND AND NEED FOR THE LEGISLATION

Currently, other parties (for example, the patent owner) are permitted to appeal an *inter partes* reexamination decision. Because this type of appeal is prohibited by current law, it is believed that the patent system is unable to fully serve the needs of inventors and the public. Further, the asymmetry controlling which parties may appeal the agency's *inter partes* reexamination decisions to the Federal courts is considered one of the major defects of the patent system and results in a major disincentive to invoke reexamination as a way of curing allegedly defective patents.

It is widely believed that the courts are an important safeguard against any potential abuse by an agency or administrative bureaucracies. Congress created the Federal Circuit in 1982 with a specific goal. It was intended to be a specialized appellate judicial forum that brings both legal and technical expertise to bear on appeals of certain issues of national importance, including patent issues. The overwhelming consensus is that in the past 20 years the Federal Circuit has proven to be a marked success. It contributes to the fairness of the system in two ways. First, it ensures predictability and certainty regarding legal issues within the subject matter of its jurisdiction, and it is a check on the agencies within its jurisdiction.

The U.S. Patent and Trademark Office (PTO) is the agency that examines applications for a patent, reviews the applicable evidence (e.g., "prior art"), and makes decisions to award the patent grant. Since the PTO is the Federal agency with the expertise and "first look" at a patent's validity and scope, Congress decided that the PTO was the proper agency with the necessary expertise to take a "second look" at a patent's validity in certain cases when new information became available. In 1980, Congress created an *ex parte* reexamination system for this purpose.[1]

The 1980 reexamination statute was enacted with the intent of achieving three principal benefits. It is noted that the reexamination of patents by the PTO would: (i) settle validity disputes more quickly and less expensively than litigation; (ii) allow courts to refer patent validity questions to an agency with expertise in both the patent law and technology; and (iii) reinforce investor confidence in the certainty of patent rights by affording an opportunity to review patents of doubtful validity.[2] More than 20 years after the original enactment of the reexamination statute, the Committee on the Judiciary still endorses these goals and encourages third parties to pursue reexamination as an efficient way of settling patent disputes.

According to the data produced by the PTO, the number of requests for reexamination during the past decade has remained relatively constant, even as the total number of patent filings has increased dramatically:

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[1] 35 U.S.C. §§ 301, *et seq.*

[2] 126 Cong. Rec. 29, 895 (1980) (statement of Rep. Kastenmeier). *See also* H.R. Rep. No. 96–1307 (1980), *reprinted in* 1980 U.S.C.C.A.N. 6400; *see Patlex Corp.* v. *Mossinghoff*, 758 F.2d 594, 601; 225 U.S.P.Q. (BNA) 243, 248 (Fed. Cir. 1985).

FY	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Appli-cations	185,446	188,099	201,554	236,679	206,276	237,045	256,666	278,268	311,807
Total Patents Granted	99,405	96,676	101,270	101,895	104,900	122,977	154,579	159,156	182,223
Total Reexam Requests	**392**	**359**	**379**	**392**	**418**	**376**	**350**	**385**	**318**
by patent owner	167	147	150	138	194	157	168	173	137
by third party	168	211	227	253	223	215	178	181	172
by the Comm'r	57	1	2	1	1	4	4	31	9

This "1980-reexamination system" was considered useful and efficient, but limited in several ways, including its scope and the participation of third parties. In 1999, as part of the American Inventors Protection Act,[3] Congress created an optional and expanded reexamination system which was specifically designed to be used by third parties, known as *inter partes* reexamination.

With *inter partes* reexamination, it is believed that a better balance can be achieved toward the goal of improving patent quality and validity. This type of reexamination is praised because it is intended to be a cheaper and more efficient procedure to review poor-quality or otherwise defective patents than through the Federal courts. The participation by third parties is considered vital because in many circumstances they have the most relevant prior art available and incentive to seek to invalidate an allegedly defective patent.

HEARINGS

The Committee's Subcommittee on Courts, the Internet, and Intellectual Property did not hold a legislative hearing on the bill, H.R. 1886. However, the Subcommittee held two related oversight hearings: (1) on "Business Method Patents" on April 4, 2001, and; (2) on "Patents: Improving Quality and Curing Defects" on May 10, 2001. Testimony during the hearing was received from seven witnesses, representing seven organizations, with additional material submitted by three individuals and organizations.

COMMITTEE CONSIDERATION

On May 22, 2001, the Subcommittee on Courts, the Internet, and Intellectual Property met in open session and ordered favorably reported the bill H.R. 1886, by a voice vote, a quorum being present. On June 20, 2001, the Committee met in open session and ordered favorably reported the bill H.R. 1886 without amendment by voice vote, a quorum being present.

[3] Intellectual Property and Communications Omnibus Reform Act of 1999, §§ 4601 *et seq.,* Pub. L. No. 106–113 (Nov. 11, 1999).

VOTE OF THE COMMITTEE

There were no recorded votes on the bill.

COMMITTEE OVERSIGHT FINDINGS

In compliance with clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee reports that the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

PERFORMANCE GOALS AND OBJECTIVES

H.R. 1886 does not authorize funding. Therefore, clause 3(c) of rule XIII of the Rules of the House is inapplicable.

NEW BUDGET AUTHORITY AND TAX EXPENDITURES

Clause 3(c)(2) of House Rule XIII is inapplicable because this legislation does not provide new budgetary authority or increased tax expenditures.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the Committee sets forth, with respect to the bill, H.R. 1886, the following estimate and comparison prepared by the Director of the Congressional Budget Office under section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, June 27, 2001.

Hon. F. JAMES SENSENBRENNER, Jr., *Chairman,*
Committee on the Judiciary,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 1886, a bill to amend title 35, United States Code, to provide for appeals by third parties in certain patent reexamination proceedings.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Ken Johnson (for federal costs), who can be reached at 226–2860, Scott Masters (for the state and local impact), who can be reached at 225–3220, and Paige Piper/Bach (for the private-sector impact), who can be reached at 226–2940.

Sincerely,

DAN L. CRIPPEN, *Director.*

Enclosure

cc: Honorable John Conyers Jr.
Ranking Member

H.R. 1886—A bill to amend title 35, United States Code, to provide for appeals by third parties in certain patent reexamination proceedings.

H.R. 1886 would allow third parties—meaning persons other than the patent owner—to appeal patent reexamination decisions to the U.S. Court of Appeals for the Federal Circuit. CBO estimates that implementing the bill would cost the Patent and Trademark Office (PTO) about $3 million a year, assuming the appropriation of the necessary amounts. Enacting H.R. 1886 would not affect direct spending or receipts; therefore, pay-as-you-go procedures would not apply.

H.R. 1886 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

Under current law, third parties can file a request with PTO to reexamine a patent's validity and can appeal the agency's ruling to a special board. Unlike the patent owner, however, a third party is not allowed to appeal the special board's ruling to the U.S. Court of Appeals for the Federal Circuit. Because H.R. 1886 would give third parties this extra level of appeal, implementing the bill would require PTO to hire additional attorneys to represent the agency in appeals proceedings. Based on information from PTO, CBO also expects that enacting H.R. 1886 would cause the total number of patent reexamination filings to increase. As a result, PTO would need to hire additional patent examiners to review the new requests. CBO estimates that the added staff would cost the agency about $3 million a year, subject to the availability of appropriated funds.

The CBO staff contacts for this estimate are Ken Johnson (for federal costs), who can be reached at 226–2860, Scott Masters (for the state and local impact), who can be reached at 225–3220, and Paige Piper/Bach (for the private-sector impact), who can be reached at 226–2940. The estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

CONSTITUTIONAL AUTHORITY STATEMENT

Pursuant to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee finds the authority for this legislation in article 1, section 8, clause 8 of the Constitution.

SECTION-BY-SECTION ANALYSIS AND DISCUSSION

Sec 1. Appeals in Inter Partes Reexamination Proceedings.

Subsection (a) amends section 315(b) of Title 35, United States Code, to permit third-parties to appeal to the Board of Patent Appeals and Interferences and the U.S. Court of Appeals for the Federal Circuit pursuant to sections 141 and 144 of title 35, United States Code.

Subsection (b) strikes the last sentence of section 134(c) of title 35, United States Code, which prohibits the third-party requesters from appealing the decision of the Board of Patent Appeals and Interferences.

Subsection (c) amends section 141 of title 35, United States Code, to specify that third-party requesters have the right to appeal the final decision of the Board of Patent Appeals and Interferences con-

cerning a reexamination under section 134 of title 35, United States Code, proceeding to the U.S. Court of Appeals for the Federal Circuit.

Sec. 2. Effective Date.

Section 2 provides that the right for third parties to appeal these decisions is prospective and that the right applies to reexamination proceedings commenced on or after the date of enactment.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

TITLE 35, UNITED STATES CODE

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PART II—PATENTABILITY OF INVENTIONS AND GRANT OF PATENTS

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CHAPTER 12—EXAMINATION OF APPLICATION

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§ 134. Appeal to the Board of Patent Appeals and Interferences

(a) * * *

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(c) THIRD-PARTY.—A third-party requester in an inter partes proceeding may appeal to the Board of Patent Appeals and Interferences from the final decision of the administrative patent judge favorable to the patentability of any original or proposed amended or new claim of a patent, having once paid the fee for such appeal. **[**The third-party requester may not appeal the decision of the Board of Patent Appeals and Interferences.**]**

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CHAPTER 13—REVIEW OF PATENT AND TRADEMARK OFFICE DECISIONS

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§ 141. Appeal to Court of Appeals for the Federal Circuit

An applicant dissatisfied with the decision in an appeal to the Board of Patent Appeals and Interferences under section 134 of this title may appeal the decision to the United States Court of Appeals for the Federal Circuit. By filing such an appeal the applicant waives his or her right to proceed under section 145 of this title. A patent owner*, or a third-party requester in an inter partes reex-*

amination proceeding, who is in any reexamination proceeding dissatisfied with the final decision in an appeal to the Board of Patent Appeals and Interferences under section 134 may appeal the decision only to the United States Court of Appeals for the Federal Circuit. A party to an interference dissatisfied with the decision of the Board of Patent Appeals and Interferences on the interference may appeal the decision to the United States Court of Appeals for the Federal Circuit, but such appeal shall be dismissed if any adverse party to such interference, within twenty days after the appellant has filed notice of appeal in accordance with section 142 of this title, files notice with the Director that the party elects to have all further proceedings conducted as provided in section 146 of this title. If the appellant does not, within thirty days after the filing of such notice by the adverse party, file a civil action under section 146, the decision appealed from shall govern the further proceedings in the case.

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PART II—PATENTABILITY OF INVENTIONS AND GRANT OF PATENTS

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CHAPTER 31—OPTIONAL INTER PARTES REEXAMINATION PROCEDURES

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§ 315. Appeal

(a) * * *

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[(b) THIRD-PARTY REQUESTER.—A third-party requester may—

[(1) appeal under the provisions of section 134 with respect to any final decision favorable to the patentability of any original or proposed amended or new claim of the patent; or

[(2) be a party to any appeal taken by the patent owner under the provisions of section 134, subject to subsection (c).]

(b) THIRD-PARTY REQUESTER.—A third-party requester—

(1) may appeal under the provisions of section 134, and may appeal under the provisions of sections 141 through 144, with respect to any final decision favorable to the patentability of any original or proposed amended or new claim of the patent; and

(2) may, subject to subsection (c), be a party to any appeal taken by the patent owner under the provisions of section 134 or sections 141 through 144.

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MARKUP TRANSCRIPT

BUSINESS MEETING

WEDNESDAY, JUNE 20, 2001

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Committee met, pursuant to notice, at 11:07 a.m., in Room 2141, Rayburn House Office Building, Hon. F. James Sensenbrenner [Chairman of the Committee] presiding.

The next item on the agenda is the adoption of H.R. 1886 to amend title 35, United States Code, to provide for appeals by third parties in certain patent reexamination proceedings.

[H.R.1886 follows:]

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107TH CONGRESS
1ST SESSION

H. R. 1886

To amend title 35, United States Code, to provide for appeals by third parties in certain patent reexamination proceedings.

IN THE HOUSE OF REPRESENTATIVES

MAY 17, 2001

Mr. COBLE introduced the following bill; which was referred to the Committee on the Judiciary

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A BILL

To amend title 35, United States Code, to provide for appeals by third parties in certain patent reexamination proceedings.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. APPEALS IN INTER PARTES REEXAMINATION PROCEEDINGS.

(a) APPEALS BY THIRD-PARTY REQUESTER IN PROCEEDINGS.—Section 315(b) of title 35, United States Code, is amended to read as follows:

"(b) THIRD-PARTY REQUESTER.—A third-party requester—

"(1) may appeal under the provisions of section 134, and may appeal under the provisions of sections 141 through 144, with respect to any final decision favorable to the patentability of any original or proposed amended or new claim of the patent; and

"(2) may, subject to subsection (e), be a party to any appeal taken by the patent owner under the provisions of section 134 or sections 141 through 144.".

(b) APPEAL TO BOARD OF PATENT APPEALS AND INTERFERENCES.—Section 134(c) of title 35, United States Code, is amended by striking the last sentence.

(c) APPEAL TO COURT OF APPEALS FOR THE FEDERAL CIRCUIT.—Section 141 of title 35, United States Code, is amended in the third sentence by inserting ", or a third-party requester in an inter partes reexamination proceeding, who is" after "patent owner".

SEC. 2. EFFECTIVE DATE.

The amendments made by this Act apply with respect to any reexamination proceeding commenced on or after the date of the enactment of this Act.

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Chairman SENSENBRENNER. The Chair recognizes the gentleman from North Carolina, Mr. Coble, the Chairman of the Subcommittee on Courts, the Internet, and Intellectual Property, for purposes of a motion.

Mr. COBLE. Mr. Chairman, the Subcommittee on Courts, the Internet, and Intellectual Property reports favorably the Bill H.R. 1886 and moves its favorable recommendation to the full House.

Ms. LOFGREN. Mr. Chairman?

Chairman SENSENBRENNER. Without objection, H.R. 1886 will be considered as read and open for amendment at any point.

The Chair first recognizes the gentleman from North Carolina to strike the last word, if it is the last word.

Mr. COBLE. And this will not require 5 minutes, Mr. Chairman.

This bill is another straightforward bill. It attempts to improve the patent reexamination system. It aims at closing an unfortunate administrative loophole and bridging legal gap in the working of our patent system.

The reform also comes out of the two hearings that the Subcommittee has conducted earlier this session. While I strongly endorse the professionalism of the Patent and Trademark Office, I also believe it is necessary to place a check on the PTO's action by affording all participants judicial review before a Federal Appeals Court. This check by a higher independent authority is an important safeguard and adds transparency to the process.

Rest assured that this appellate review will not impose additional burdens on patent holders arising from Federal trials. I urge the full Committee to support passage of this overdue bill.

Chairman SENSENBRENNER. The gentlewoman from California, Ms. Lofgren?

Ms. LOFGREN. I move to strike the last word.

Chairman SENSENBRENNER. The gentlewoman is recognized for 5 minutes.

Ms. LOFGREN. I note that Ranking Member Berman also supports H.R. 1886 and urges the Committee to do the same. We believe that this is a good, although small step, in approving the reexamination procedure, and we note that—and I think the Chairman agrees—there may be some additional measures that we will need to take, but certainly that should not deter us from supporting this bill today, and I yield back the balance of my time.

Chairman SENSENBRENNER. The time of the gentlewoman has expired.

Without objection, all Members may place opening statements in the record at this point.

Chairman SENSENBRENNER. Are there any amendments?

Mr. COBLE. No amendments, Mr. Chairman.

Chairman SENSENBRENNER. There being no amendments, the question now occurs on the motion to report H.R. 1886 favorably. The Chair notes the presence of a reporting quorum.

All in favor say aye.

Opposed, no.

The ayes have it, and the motion to report favorably is adopted.

Without objection, the bill—well, without objection, the Chairman is authorized to move to go to conference, pursuant to House rules.

Without objection, the staff is directed to make technical and conforming changes. All Members will be given 2 days, as provided

by House rules, in which to submit additional dissenting supplemental or minority views.

○