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The Independence of the Patent Office and the Courts

Patent litigation may have replaced polo as the sport of kings because of its costly nature and drain on a party's resources. However, once engaged in a patent litigation, like any dispute, if a party too intensely focuses on any one front, it may lose the opportunity to win the war.

'In re Trans Texas Holdings'

In the recent decision *In re Trans Texas Holdings Corp.*,[1] the U.S. Court of Appeals for the Federal Circuit (CAFC) provided a useful reminder that the Patent and Trademark Office (PTO) is an independent governmental body that is not secondary in importance to the courts, and any client that finds itself engaged in a patent dispute or potential patent dispute would be remiss if it did not keep in mind the powerful, but often under-used re-examination procedures that the PTO offers the public to challenge the validity of patents.

In particular, the PTO is not bound by a prior court ruling on a patent's meaning and scope, but rather is free to reach its own, perhaps contrary interpretation.

In every patent dispute, the defendant considers scope (interpretation), infringement and whether the patent is invalid because the claims of the patent are either not novel or are obvious over the prior art. The prior art against which a patent is measured includes printed publications and other disclosures that were made more than one year prior to the filing of the patent application.[2] Unfortunately for a defendant or patent challenger, each issued patent enjoys a presumption of validity that the courts must respect.[3] Therefore, any challenger to the validity of a patent faces what can be a very high hurdle to overcome in court. Moreover, validity challenges are typically made at the end of discovery and/or at the end of trial, and are subject to appeal. Thus,

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they may come only after millions of dollars have been spent.

Still, a court challenge to a patent's validity may only be brought after an accused infringer has been sued, or after the party seeking to challenge the patent is in a sufficient position to have standing to bring a declaratory judgment action. For many parties who have not been threatened with suit or are only thinking about entering the market space in which another's patent exists, a court challenge is not possible.

There is another option, albeit one that many attorneys and clients avoid: re-examination. Any member of the public, including the patentee, may ask the PTO to re-examine an issued patent and to consider whether the patent is invalid because it is either not novel or is obvious in view of other patents or printed publications (printed prior art).[4] If the PTO agrees that the printed prior art raises a substantial new question of patentability, the PTO will reopen prosecution and conduct an independent analysis under its re-examination procedures. There are two possible types of re-examination, ex parte and inter partes. For any patent that issued from an application that was filed on or after Nov. 29, 1999, either option is available. For older applications, only the former (ex parte) is available.

In re Trans Texas Holdings involved two ex parte re-examination procedures that the patentee itself had requested. Tactically, patentees often do this when they learn of art after a patent has issued and want to avoid having a rival attack validity based on "new" art in either the PTO or the courts. If the PTO allows the patent after examining the claims in view of the new art, it is far more likely for a court subsequently to also uphold validity.

In 1999, the patentee initiated litigation in the U.S. District Court for the Western District of Texas alleging infringement of two patents. In August 2000, the court issued a claim construction (Markman) ruling. In October 2000, the patentee requested re-examination of both of its own patents. The PTO agreed that substantial new questions of patentability were raised and in December 2000 began re-examination of the patents. By January 2001, the parties settled the court action.

Once the re-examination had commenced, the patentee did not have the power to withdraw the request or to stop the process. By 2002, the PTO examiner issued final office actions, rejecting all of the claims as obvious in view of the prior art. In attempting to rebut the rejection, the patentee took issue with the examiner's construction of two phrases in the claims in a manner that differed from the court's construction of those phrases.

Board of Patent Appeals

The patentee appealed to the Board of Patent Appeals and Interferences (the board), arguing that the examiner was bound by the court's claim construction under the doctrine of issue preclusion, e.g., collateral estoppel. The board affirmed the examiner's determination, holding that different claim construction standards apply in PTO proceedings because the PTO gives claims their broadest reasonable interpretation consistent with the specification. By contrast, courts construe claims to preserve patentability. Thus, for any given limitation it is possible that the PTO will construe it more broadly than the courts will. Ironically, appeals from both the PTO and district courts go to the CAFC. Thus, according to the board's reasoning, the same limitation, in theory, could well be construed in two different ways by the CAFC depending on how the issue reached it.

The board also concluded that the district court's claim construction was not necessary to the judgment rendered in the previous action, in view of the settlement before trial, providing a second reason why the doctrine of issue preclusion did not apply.

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The Federal Circuit affirmed on a third ground: The PTO was not a party to the earlier case, and thus should not be bound by those proceedings.

Issue Preclusion

In taking up the issue of issue preclusion, the CAFC noted:

> [t]raditionally, issue preclusion, also known as collateral estoppel, applied only where the same parties to an earlier proceeding were involved in later litigation involving the same issue…. More modern decisions in some circumstances apply issue preclusion even where the parties to the subsequent suit are not the same…. The latter doctrine is known as nonmutual collateral estoppel, and it is the latter doctrine that Trans Texas relies on here.

The CAFC then recited the four prerequisites to application of the doctrine of issue preclusion:

> (1) identity of the issues in a prior proceeding;
> (2) actual litigation of the issues;
> (3) determination of the issues that was necessary to the resulting judgment; and
> (4) the party that defends against preclusion had a full and fair opportunity to litigate the issues.

The CAFC emphasized that the fourth prerequisite had not been met because the PTO was not a party to the district court litigation and thus could not be bound by the decision.

The patentee argued that this was a unique circumstance because the re-examination proceeding had been ex parte. However, in somewhat circular reasoning, the CAFC held that the appeal was not ex parte and that if the PTO were not treated as a party to the appeal, "there would be no basis for even considering the application of issue preclusion in the first place." The CAFC also rejected the patentee's argument that it represented the PTO's interests in the district court.

That the patentee initiated this re-examination case is particularly interesting, because as the CAFC noted, unlike the PTO, the patentee would have been barred from asserting a claim construction that had already been rejected by the district court.

In re Trans Holdings Corp. is also interesting from the perspective of an accused infringer or potential defendant. It is a reminder that trial courts are not necessarily the last or best word on the scope of a patent claim or its validity. Consider a patentee that sues a first infringer. The trial court may issue a claim construction ruling and uphold the patent as novel over a particular piece of prior art. The same prior art could be brought before the PTO and considered in a re-examination proceeding by either the first infringer or a second infringer in an ex parte proceeding. Under *In re Trans Holding Corp.*, the PTO is free to analyze the issue of claim construction and in turn the issue of invalidity independent of how the court analyzed it. When the request is ex parte, the accused infringer need not disclose its identity, and even if it did disclose its identity there is no reason for the PTO to decline to re-examine the patent based on who made the request.

That an accused infringer may make a request for re-examination does not answer, however, when it is strategic to make the request. As a matter of economics, the requester should consider making the request as early as possible, thereby avoiding as much of the litigation expenses as possible. However, the requester should be wary that unlike in court, where there is a binary system of validity or invalidity of the claims, in the PTO, even in re-examination, the patentee could amend its claims and emerge with a narrower claim set. Thus, depending on whether the invalidating art describes the challenger's activity, the challenger could prevail in the re-examination proceeding by having some claims invalidated and/or narrowed, but still be charged with infringing the new claim set.

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Another factor is that the challenger could also lose in an ex parte re-examination proceeding. While this would not preclude the challenger from reintroducing the art in litigation, because of the presumption of validity of patents, if the PTO deemed the claims patentable over certain prior art, a court would quite likely reach the same conclusion.

Every case raises new questions even as it answers others. If the challenger has waited until after there is a district court ruling, then it faces an interesting dilemma. If it believes that the court made an incorrect determination and it appeals to the CAFC and the CAFC affirms the lower court decision, can the challenger or a different challenger, then request re-examination?

Under *In re Trans Texas Holdings*, the PTO is not bound by a district court decision to which it was not a party. But CAFC precedent binds the PTO. Therefore, should it be bound by a CAFC claim construction if the PTO was not a party to the CAFC proceedings? This is an issue that is likely to be litigated in the future.

Inter Partes Re-Exams

Another complexity in analyzing strategy is that there are different rules for inter partes re-examinations. Congress specifically prohibited parties from making the same challenges that were made in court (or in a previous inter partes re-examination) and resulted in a final decision to be made in a subsequent inter partes re-examination proceeding by the party against whom the final decision was made.[5] Thus, unlike ex parte re-examination requests, any accused infringer must make these requests prior to a final decision by a court. However, if the accused infringer does successfully initiate an inter partes re-examination procedure, it can obtain stay of any pending litigation "unless the court before which such litigation is pending determines that a stay would not serve the interests of justice."[6] This may be particularly valuable if the challenger not only seeks time to invalidate the patent, but also seeks time to design around the patented technology.

Printed Prior Art

A party that seeks to invalidate a patent based on printed prior art has a complex array of options before it of when and how to assert the challenge. The best strategy in any situation will depend on a number of factors including: (1) the party's budget; (2) how likely is the party to be successful on invalidating the issued claims; (3) what if any subject matter would remain patentable if the PTO re-examined the patent over the printed prior art; and (4) would the challenger be able to practice its technology (or a useful alternative) if a narrower patent issued?

As *In re Trans Texas Holdings* reminds practitioners, for at least ex parte re-examinations, a court decision is not necessarily the last word, even for parties to the litigation. Moreover, even after a court decision, challengers who were not party to that litigation may initiate inter partes procedures that generate results that are inconsistent with a court determination. Accordingly, for attorneys who counsel clients on patent-related issues it is important to always keep in mind that both the courts and the PTO can interpret and invalidate patents after issuance.

1. 2006-1599, -1600 (Fed. Cir. Aug. 22, 2007).
2. 35 U.S.C. §§102, 103.
3. 35 U.S.C. §282.
4. 35 U.S.C. §§301 & 311.
5. 35 U.S.C. §317.
6. 35 U.S.C. §318.