

Keywords: Administrative Procedure Act (APA); statutory duty of PTO; invalidity; nonobviousness

General: A third party cannot sue the PTO under the APA to seek judicial review of the decision by the PTO to issue a patent.

Pregis Corp. v. Kappos

No. 2010-1492 (Fed. Cir. December 6, 2012)

I. Facts

Pregis Corporation (“Pregis”) and Free-Flow Packaging International, Inc. (“Free-Flow”) both manufacture and sell equipment for the air-filled packaging industry. Free-Flow owns the ‘377, ‘904, ‘837, and ‘397 patents directed to systems for making air-filled packaging. On April 29, 2009, Pregis sued Free-Flow seeking a declaratory judgment of noninfringement and invalidity of the ‘377 patent. As of this date, the ‘377 and ‘397 patents had been issued, but the ‘904 and ‘837 patents were still pending. Thus, Pregis also sued the PTO and Free-Flow under the Administrative Procedure Act (“APA”) to block issuance of the ‘904 and ‘837 patents.

When the ‘904 and ‘837 patents issued a few weeks later in May, 2009, Pregis amended its complaint to allege that the issuance of these patents was “arbitrary, capricious, an abuse of discretion or otherwise not in accordance with law.” Specifically, Pregis alleged that the PTO failed in its statutory duty to determine whether the claims of the ‘904 and ‘837 patents were nonobvious and that the reasons provided by the PTO for issuing the patents were insufficient to support a conclusion of nonobviousness. Pregis also amended its complaint to include claims for declaratory judgment of noninfringement and invalidity of the newly issued ‘904 and ‘837 patents. Free-Flow filed counterclaims for infringement of the ‘377, ‘904, and ‘837 patents and also alleged infringement of the ‘397 patent. In response, Pregis added the ‘397 patent to its APA claims.

In a bench ruling, the district court dismissed the APA claims of Pregis as lacking subject matter jurisdiction, holding that the Patent Act precludes third parties from seeking judicial review under the APA. The jury found that all the asserted claims of the ‘377, ‘904, and ‘837 patents invalid as obvious, but found the asserted claims of the ‘397 patent were not invalid. The jury also found that none of the asserted claims of the ‘377, ‘837, or ‘397 were infringed, but that claim 10 of the ‘904 was infringed. However, the jury found no willful infringement of the ‘904 patent and awarded zero damages to Free-Flow. Free-Flow and Pregis both appealed.

II. Issues

- A. Did the district court err by denying Free-Flow’s motion for judgment as a matter of law on validity of the claims of the ‘377, ‘904, and ‘837 patents?
- B. Did the district court err by dismissing the APA claims of Pregis?

III. Discussion

- A. No. The Federal Circuit applied the well-known Graham factors to find the claims of the ‘377, ‘904, and ‘837 patents invalid as obvious. Free-Flow argued that there was no evidence presented of a reason to combine the prior art references to arrive at the asserted claims. Specifically, Free-Flow alleged that testimony by Pregis’ technical expert was inadequate because he failed to state that the proposed combination was obvious. However, the Federal Circuit found that expert testimony on the legal conclusion of obviousness is “neither

necessary nor controlling.” Free-Flow also argued that the prior art taught away from the proposed combination, but the Federal Circuit found that the record supported the jury’s finding that the prior art did not teach away. Finally, Free-Flow asserted that evidence of copying and commercial success were objective indicia of nonobviousness. However, the Federal Circuit found an inadequate nexus between the claimed subject matter and the commercial success or alleged copied features.

- B. No. The Federal Circuit first reviewed the relevant portions of the APA. Specifically, the APA provides that a person suffering legal wrong or adversely affected by agency action is entitled to judicial review. Although PTO decisions are considered agency actions, the APA also provides several limitations on the grant of judicial review. Specifically, the APA applies “except to the extent that statutes preclude judicial review” and only if “there is no other adequate remedy in a court.”

Pregis asserted that a competitor sued as an alleged infringer is entitled under the APA to judicial review of both the PTO’s stated reasons for allowing the claims and the issuance of the patent itself. Pregis noted that during the district court trial, Free-Flow admitted that arguments made by its attorney during prosecution were based on a misunderstanding of the prior art and, thus, were incorrect. Subsequently, Free-Flow argued during trial that the ‘397 patent was patentable over the prior art on a different basis.

In responding to Pregis’ arguments, the Court referred to two previous Federal Circuit decisions (*Syntex* and *Animal Legal Defense Fund*) holding that a potential infringer cannot sue the PTO under the APA to attack the validity of an issued patent. Although the Court admitted that the factual bases of these two decisions are different from the present case, the Court nevertheless found the reasonings of these cases still applied.

First, with respect to preclusion by the Patent Act, the Court found that “[a] statute need not explicitly state that judicial review is unavailable for preclusion to be found.” Instead, preclusion may be found if the statute provides “a detailed mechanism for judicial considerations of particular issues at the behest of particular persons.” As examples of such mechanisms, the Court listed (1) procedures for allowing patent applicants to appeal PTO rejections, (2) reexamination proceedings, and (3) declaratory judgment actions for invalidity or raising invalidity as a defense in an infringement suit. The Court noted that it was apparent that Congress intended to provide third parties only with procedures to attack the *validity* of issued claims and not the *reasons* for allowance. Further, the Court stated that allowing competitors to attack issued patents under the APA would “destroy the Patent Act’s careful framework for judicial review.”

Second, with respect to the availability of adequate remedies, the Court noted that the Patent Act provides three remedies in court for competitors harmed by an erroneous issuance of a patent. Specifically, a participant in an *inter partes* reexamination may appeal to the Board and if necessary, to the Federal Circuit. Additionally, a putative infringer can bring a declaratory judgment action for invalidity against the patent owner or raise invalidity as a defense to alleged infringement. The Court noted that the judicial remedies provided for by the Patent Act need not be identical to relief under the APA, as long as the remedies are of the same genre and adequate.

IV. Conclusions

A third party cannot sue the PTO under the APA to challenge a PTO decision to issue a patent. Instead, the third party may take advantage of the post-grant review and *inter partes* review

procedures of the America Invents Act (AIA) *after* issuance of the patent. The post-grant review provides for challenges on any ground up to 9 months from issuance and *inter partes* review is available after 9 months from issuance. In addition, under the AIA, the third party may submit prior art prior to the date of notice of allowance or the later of (1) the mailing date of the first office action or (2) six months after publication. Further, *ex parte* reexaminations are still available under the AIA. Alternatively, the third party can wait for the patent to issue and then sue the patentee seeking a declaratory judgment of invalidity or the third party can raise invalidity as a defense if sued for infringement.

Although not mentioned by the Court, third parties may also file a protest against a pending application according to § 1901 of the M.P.E.P. However, § 1901 includes several requirements for a successful protest. For example, the protest must be served upon the applicant or filed with the PTO in duplicate if service is not possible. In addition, the protest must be filed prior to the date the application is published or the date a notice of allowance is mailed, whichever occurs first, unless accompanied by written consent of the applicant. § 1901 of the M.P.E.P. provides for no further involvement of the third party after filing the protest. Thus, a protest provides a limited opportunity for third parties to challenge patents *before* issuance.