Patent Litigation Alert

Supreme Court Rejects Deference to PTO in *Hyatt*

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On April 18, 2012, the Supreme Court of the United States affirmed the Court of Appeals for the Federal Circuit and clarified the evidentiary rules and procedures for a 35 U.S.C. § 145 proceeding before a district court. *Kappos v. Hyatt*, 560 U.S. ___ (2012). Specifically, the Court held that a patent applicant's ability to introduce new evidence is not limited in a section 145 proceeding beyond those limitations already imposed by the Federal Rules of Evidence and Civil Procedure. Moreover, when new evidence is introduced, a district court must review that new evidence *de novo* and in doing so can take into account both the new evidence and the administrative record before the Patent and Trademark Office (PTO). Justice Thomas delivered the unanimous opinion of the Court, with Justice Sotomayor filing a concurring opinion, in which Justice Breyer joined.

If a patent applicant is dissatisfied with the decision of the Board of Patent Appeals and Interferences (BPAI), then the applicant may either appeal to the Federal Circuit, or, pursuant to section 145, file a civil action against the Director of the PTO to obtain a patent. In this case, Gilbert Hyatt filed a patent application in 1995 including 117 claims, all of which were rejected by the examiner for lack of an adequate written description. Hyatt initially appealed the examiner's decision to the BPAI, and the BPAI approved 38 claims, but denied the rest. Needless to say, Mr. Hyatt was dissatisfied.

Hyatt then filed a civil action under 35 U.S.C. § 145 against the Director of the PTO at the district court rather than an appeal under 35 U.S.C. § 141 directly to the United States Court of Appeals for the Federal Circuit. In the district court action, Hyatt filed a written declaration identifying portions of the application that he asserted were supported by the claims—evidence that was not before the PTO. The district court determined that it could not consider Hyatt's declaration because applicants are "precluded from presenting new issues, at least in the absence of some reason of justice put forward for failure to present the issue to the Patent Office." *Hyatt v. Dudas*, Civ. Action No. 03-0901 (D. D.C. Sept. 30, 2005), p. 9. Applying the deferential substantial evidence standard of the Administrative Procedures Act (APA) to the BPAI's findings, the district court then granted summary judgment in favor of the Director. Hyatt appealed to the Federal Circuit.

Initially, a divided panel affirmed the district court decision, holding that the APA imposes restrictions on the admission of new evidence in a section 145 proceeding and that the district court could not review the record "wholly *de novo*." However, after granting rehearing *en banc*, the Federal Circuit vacated the district court's grant of summary judgment. The *en banc* Federal Circuit held that applicants are "free to introduce new evidence in § 145 proceedings subject only to the rules applicable to all civil actions, the Federal Rules of Evidence and the Federal Rules of Civil Procedure" even if the applicant had no justification for failing to present the evidence to the PTO. *Hyatt v. Doll*, 625 F. 3d 1320, 1331-36 (Fed. Cir. 2010) (en banc). Further, the Federal Circuit held that the district court must make *de novo* findings to take such evidence into account. *Id.*

The Director challenged both aspects of the Federal Circuit decision at the Supreme Court, arguing that PTO decisions were due broad deference under the APA. The Supreme Court rejected this argument, and affirmed the Federal Circuit on both grounds. The Court found that section 145 expressly contemplates the introduction of new evidence and by its terms imposes no special limits or heightened standard of review. Further, the district court in cases where new evidence is introduced serves as the factfinder, and while that court may consider whether the applicant had an opportunity to present the newly proffered evidence before the PTO, it reviews any factual issues on which the new evidence bears *de novo*.

In arriving at its decision, the Court considered two cases: *Butterworth v. United States ex rel. Hoe*, 112 U.S. 50 (1884), and *Morgan v. Daniels*, 153 U.S. 120 (1894), which both considered a previous version of section 145, Revised Statute § 4915 (R.S. 4915). In *Butterworth*, the Court held that a proceeding pursuant to R.S. 4915 was to be conducted "according to the ordinary course of equity practice and procedure" and that the court was not confined to the record before the PTO, but could hear "all competent evidence adduced and upon the whole merits." *Butterworth*, 112 U.S., at 61. On the other hand, in *Morgan*, the Court described the R.S. 4915 proceeding as one over a question of fact that had already been "settled by a special tribunal [e]ntrusted with full power in the premises" and characterized it not as an independent civil action, but as "something in the nature of a suit to set aside a judgment." *Morgan*, 153 U.S., at 124.

After considering both cases, the Court distinguished *Morgan* on the grounds that no new evidence had been presented in that case, unlike here. Therefore, the Court chose to follow *Butterworth* and decided that "a district court conducting a § 145 proceeding may consider all competent evidence adduced, and is not limited to considering only new evidence that could not have been presented to the PTO." *Kappos*, slip. op. at 12.

Justice Sotomayor joined in the Court's opinion in full, but offered a clarification of the Court's holding, which Justice Breyer joined. Justice Sotomayor wrote that she agreed with the Court's decision that the applicant in this case was entitled to present evidence to the district court which he failed to present to the PTO due to "ordinary negligence, a lack of foresight, or simple attorney error". *Kappos*, concurrence, slip. op. at 2. However, she felt that there are instances when the district court has authority to exclude evidence "deliberately suppressed from the PTO or otherwise withheld in bad faith." *Id.* at 3. Justice Sotomayor wrote that this conclusion was consistent with the majority decision because the authority to exclude such evidence was consistent with regular equity practice and procedure affirmed by the Court. *Id.*

Although section 145 actions before the district court are relatively rare, this decision makes such actions a potentially very useful tool for patent applicants. Specifically, the decision gives patent applicants an opportunity to introduce new evidence previously not before an examiner and BPAI. Unlike directly appealing to the Federal Circuit in a section 141 action, the section 145 action allows not only the introduction of new evidence, but also requires the district court to make its own findings *de novo*. The PTO, despite being an expert agency, is given no deference—a departure from typical administrative law policy. Further, evidence that can be introduced includes oral testimony, which is not provided for at the PTO. However, the expanded opportunity for patent applicants to present new evidence in section 145 proceedings will have to be carefully evaluated against the higher costs of bringing such actions.

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