

## Does Kappos V. Hyatt Apply To Interference Appeals?

*Law360, New York (June 05, 2012, 1:26 PM ET)* -- In *Kappos v. Hyatt*, No. 10-1219, slip op., 132 S. Ct. 1690 (April 18, 2012), the U.S. Supreme Court definitively answered two questions in a district court proceeding taken from the denial of a patent application in the U.S. Patent and Trademark Office. The court addressed whether any limitations should exist on the applicant's ability to introduce new evidence in the district court that it did not present to the USPTO, and if so, what standard must the district court employ when considering any new evidence on disputed fact issues.

On review, the court held that a patent applicant's right to introduce new evidence is limited only to the restrictions imposed by the Federal Rules of Evidence and Civil Procedure. Moreover, when new evidence is introduced, "the district court must make its own findings de novo and does not act as the 'reviewing court' envisioned by the APA [Administrative Procedures Act]."[1]

The underlying action in the district court was governed by 35 U.S.C. § 145, which creates a civil action to sue the director of the USPTO in the United States District Court for the Eastern District of Virginia for the denial of the patent application.[2] Section 145 empowers a United States district judge to award the patent to the applicant "as the facts in the case may appear." Though § 145 is silent as to the admission of evidence, longstanding precedent allows new evidence to be admitted in a § 145 proceeding.[3] According to *Kappos v. Hyatt*, the district court may give no deference to the decision of the board because "it makes little sense for the district to apply a deferential standard of review to PTO factual findings that are contradicted by the new evidence." [4]

The Supreme Court's decision does not appear to give the opposing party any ammunition to oppose introducing the new evidence in the district court. The court rejected the director's argument that the new evidence should be admissible only if the proponent can explain that it had no reasonable opportunity to offer the evidence before the USPTO. The Supreme Court dismissed the notion that allowing new evidence would encourage applicants to "withhold evidence" in the USPTO in order to obtain an advantage the second time around before a district judge.

Rather, the only limitations concern the Rules of Evidence and Civil Procedure. Conceivably, the applicant could miss a discovery deadline once in the district court, and thereby be precluded from introducing the evidence. However, that concerns court procedure rather than whether the evidence was available at the time of the board proceeding.

To be sure, the new evidence standard will impose additional burdens on the district court because it can no longer review the agency record for the sole purpose of determining whether there was substantial evidence to support the decision.

Now the district court must accept new evidence, review the USPTO record while giving no deference to the USPTO decision, and make de novo fact findings. Time will tell how the Eastern District of Virginia will respond to its new obligation and the nature of the proceeding it will allow applicants in § 145 cases.

### **Does Kappos v. Hyatt Apply to Existing Interference Practice?**

The decision in *Kappos v. Hyatt* raises the question as to whether the new evidentiary standard applies to civil actions under 35 U.S.C. § 146. Where § 145 creates a civil action to challenge the denial of a patent application, § 146 creates a civil action to challenge an adverse USPTO ruling in an interference proceeding between parties claiming priority to the same invention. An interference is an administrative proceeding before a panel of administrative patent judges to determine who was first to invent common subject matter claimed between two patent applications or a patent application and an issued patent, and issues of validity.[5]

Where an action under § 145 is brought against the USPTO director, an action under § 146 is brought by the losing party against the prevailing party in the appropriate United States district court to challenge the adverse ruling of the USPTO board. Further, a § 146 action is not venued exclusively in the Eastern District of Virginia, but can be brought in any district court that would otherwise have personal jurisdiction over the warring parties.

To support its claim to priority, each party to an interference proceeding must introduce evidence of its prior conception and prior reduction to practice. Priority goes to the first party to reduce an invention to practice unless the other party can show prior conception and that it exercised reasonable diligence in later reducing that invention to practice.[6] Where § 145 is silent as to evidence, § 146 specifically provides the proponent with the right to “further cross-examination of the witnesses as the court imposes, without prejudice to the right of the parties to take further testimony.”

In 2000, in *Winner Int’l Royalty Corp. v. Chang* the Federal Circuit ruled that when the district court admits live testimony on all matters previously before the Board in a § 146 action, the district court becomes a fact finder and requires a de novo trial.[7] In 2009, 2010 and again in 2011 in *Streck Inc. v. Research & Diagnostic Systems Inc.*, the Federal Circuit went further and instructed that § 146 grants parties the right to introduce new evidence: Section 146 affords a litigant the option of shoring up evidentiary gaps that may have been evident by the end of the inter partes interference procedure. In this case, the board explicitly notified Agilent of such gaps, and Agilent endeavored to fill them. Thus, Section 146 permits such new evidence ...[8]

Beginning in 2000 with *Winner Int’l* through 2011 with *Streck*, Federal Circuit precedent holds in § 146 proceedings that the applicant may introduce new testimony and that the district court must make de novo findings. And that is precisely how the Supreme Court ruled in § 145 cases in *Kappos v. Hyatt*.

Moreover, the rationale of *Kappos v. Hyatt* should apply to § 146 because existing Federal Circuit jurisprudence provides that proceedings under §§ 145 and 146 are cognate. For instance, in the en banc decision below in *Kappos v. Hyatt* the Federal Circuit stated “[a] sections 145 and 146 both stem from [the same legislation], we have characterized these sections as ‘parallel provisions’ to be treated similarly.”[9] The en banc court further stated, “We see no rationale that would justify distinguishing between interferences [§ 146 actions] and ex parte actions [§ 145 actions] for admissibility purposes.”[10]

The prevailing party before the board in an appeal of the interference action to the district court will object to applying the new evidentiary standard to § 146 cases, and will rely on a single, cryptic sentence in *Kappos v. Hyatt* to claim that the decision is limited to § 145 actions. The court said that “[a]lthough interference proceedings were previously governed by R. S. 4915, they are now governed by a separate section of the Patent Act, 35 U.S.C. § 146, and therefore do not implicate § 145.”[11] However, it would seem in that one sentence the Supreme Court did not purport to undo long standing Federal Circuit precedent on an issue not even before it.

It will remain to be seen whether the district courts will apply *Kappos v. Hyatt* to § 146 actions and assume the burden to make de novo factual findings after a full trial. Applicants should expect some resistance from busy district court judges. For instance, even before the decision in *Kappos v. Hyatt* and with the Federal Circuit precedent allowing applicants to introduce new evidence in § 146 cases, some district courts refused to allow an applicant a “do-over” and reviewed the decision of the board on the existing record using the substantial evidence test.[12]

Before the Federal Circuit articulated its own standard in § 146 cases, other district courts held that the words “further testimony” applied only to witnesses who already supplied testimony to the board by way of affidavit and deposition transcripts. The district courts would allow further testimony of existing witnesses to access credibility, because the board does not take live testimony and cannot access credibility by reading affidavits and deposition transcripts. Conversely, proposed testimony of witnesses not presented to the board could only be admitted in the discretion of the district court upon a showing that in the exercise of due diligence the testimony was not available.[13]

### **The American Invents Act Replaces Interference Proceedings with Derivation Proceedings**

Whether this new evidentiary standard will apply to § 146 cases concerns only interference actions brought before the effective date of the American Invents Act signed into law on Sept. 16, 2011. This reform legislation moved the United States patent system from a first-to-invent to a first-to-file system. The new law eliminated interference proceedings and replaced them with a new derivation proceeding to be conducted before the new Patent Trial and Appeals Board.

The act simply replaced the word “interference” with “derivation proceeding” and thereby retained the right of the petitioner to “further cross-examination of the witnesses as the court imposes, without prejudice to the right of the parties to take further testimony.” The statute retained the right to appeal from a final decision of the board directly to the Federal Circuit, or to an appropriate district court.[14] Since the effective date is 18 months after enactment, this change will apply to applications with effective filing dates after March 16, 2013.

Even if the district courts apply the rationale of *Kappos v. Hyatt* to the remaining interference practice, the next question is whether it will have lasting impact on the new derivation proceeding. According to its notice of proposed rulemaking, the USPTO expects 50 derivation petitions to be filed in 2013 and estimates that the USPTO director will initiate a derivation proceeding in only 10 of those petitions. Of those 10 petitions, the USPTO expects that five will seek judicial review.

The USPTO recently proposed limited discovery in the new derivation proceeding. If the USPTO ultimately adopts limited discovery rules, it may give a petitioner firepower to argue that “further testimony” in a district court ought to have the same expansive interpretation as in § 145 cases under *Kappos v. Hyatt*.

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[1] *Id.* at 1696.

[2] The Leahy-Smith American Invents Act changed the venue for § 145 proceedings from the United States District Court for the District of Columbia to the United States District Court for the Eastern District of Virginia, and changed the name of the Board of Patent Appeals and Interferences to the Patent Trial and Appeal Board, 125 Stat. 284. Alternative to a district court action, an applicant may appeal his cause directly to the Court of Appeals for the Federal Circuit under 35 U.S.C. § 141 and bypass the district court, but he is limited to the record before the Board and has no right to introduce any new evidence.

[3] *Dickinson v. Zurko*, 527 U.S. 150, 164 (1999).

[4] *Kappos v. Hyatt*, 132 S. Ct. at 1696.

[5] 35 U.S.C. §135.

[6] *Price v. Symsek*, 988 F.2d 1187, 1190 (Fed. Cir. 1993).

[7] *Winner Int’l Royalty Corp. v. Chang*, 202 F.1340, 1347 (Fed. Cir. 2000).

[8] *Agilent Technologies Inc. v. Affymetrix Inc.*, 567 F.3d 1366, 1379-80 (Fed. Cir. 2009); *Koninklijke Philips Elecs. N.V. v. Cardiac Sci. Operating Co.*, 590 F.3d 1326, 1332 (Fed. Cir. 2010) (“§ 146 grants parties the right to present new testimony and requires the court to review the Board’s factual findings.”); *Streck Inc. v. Research & Diagnostic Systems Inc.*, 659 F.3d 1186, 1190–1 (Fed. Cir. 2011) (§ 146 provides that the civil action is “without prejudice to the right of the parties to take further testimony”)

[9] *Kappos v. Hyatt*, 625 F.3d 1320, 1330 (Fed. Cir. 2010) (citing *Winner Int'l Royalty Corp. v. Wang*, 202 F.3d 1340, 1345 (Fed. Cir. 2000)).

[10] 625 F.3d at 1330, n.2.

[11] *Kappos v. Hyatt*, 132 S.Ct. at 1699.

[12] See, e.g., *AlphaVax Inc. v. Novartis Vaccines and Diagnostics Inc.*, 719 F. Supp. 2d 156 (D. Mass. 2010).

[13] See e.g., *Cell Genesys Inc. v. Applied Systems ARS Holding N.V.*, 449 F.Supp.2d 59 (D.Mass. 2007).

[14] 35 U.S.C. § 141(a) and 35 U.S.C. § 146.

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