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High Court's USPTO Evidence Ruling Could Sting Agencies

By **Erin Coe**

Law360, San Diego (January 06, 2012, 10:39 PM ET) -- While a decision in the Kappos v. Hyatt dispute before the U.S. Supreme Court may affect only a small number of patent cases, it could have broader implications on how much deference courts should give government bodies like the U.S. Patent and Trademark Office, attorneys say.

Oral arguments in the case are set for Monday, and the high court will be tasked with reviewing the extent of new evidence that patent applicants can present to a district court after the USPTO has rejected their applications.

USPTO Director David Kappos' case, which the Supreme Court agreed to take in June, challenges the Federal Circuit's en banc decision in November 2010 that patent applicants suing the USPTO in a Section 145 civil action were entitled to introduce new evidence in the district court, even if the evidence was withheld from the agency.

The decision revived Gilbert Hyatt's case against the USPTO over a denied software patent, and overturned a judgment in favor of the agency that a Federal Circuit panel upheld in February 2010. More expansively, the ruling firmly established the standard of review and barred district courts from excluding from Section 145 proceedings evidence that applicants neglected to produce at the USPTO.

When the USPTO turns down a patent application, an applicant can either challenge the decision before the Federal Circuit or bring a case against the USPTO director before a district court. However, the district court route is not all that popular and it is surprising the Supreme Court decided to pick up a case that was likely to impact only a handful of disputes, according to Lando & Anastasi LLP partner Craig Smith.

An amicus brief by the Intellectual Property Owners Association pointed out that only 11 Section 145 proceedings were filed between 2009 and 2011 based on a search in Lex Machina Inc.'s patent filings database.

Yet the high court could weigh in on the more interesting issue related to a court's deference to a ruling by the USPTO's Board of Patent Appeals and Interferences, and parties that regularly deal with administrative bodies may want to stay tuned to find out how much deference should be given to a federal administrative agency, Smith says.

“Although the Supreme Court is obviously going to deal with what happens to one provision of the patent statute, its ruling could have broader applications for other administrative bodies beyond the USPTO,” he said.

The case centers on the tension between the statutory scheme that provides for different types of review and the notion of agency deference, according to Foley & Lardner LLP partner Courtenay Brinckerhoff.

“I don’t think it’s easy to see how the Supreme Court will decide,” she said.

The government is arguing in the case that a Section 145 proceeding should not be a de novo action, but rather a review of an agency decision, and that an applicant should only be able to present new evidence if there was no reasonable opportunity to present it in the first place, according to Brinckerhoff.

“If an applicant has new documentary evidence, the government is arguing that the case should be remanded to the USPTO in order to keep the agency as the initial decision maker,” she said.

The government contends that if the Federal Circuit’s en banc decision is affirmed, it could encourage applicants to withhold evidence from the USPTO in order to obtain a patent in the district court based on a completely different record, Brinckerhoff said.

“The USPTO is looking at this in the worst light,” she said. “It argues that the sky is falling and that this decision opens the door for people to run to the courthouse, but very few of these cases are pursued.”

Hyatt claims that the USPTO’s fear that more jilted patent applicants are going to challenge the agency through district court proceedings is unrealistic.

“Going to the district court to sue the USPTO to get a patent allowed would be so much more time consuming and expensive for a patent applicant,” Smith said. “Most patent applicants are going to be putting forth their best arguments and evidence before the USPTO.”

But in some instances, an applicant may want to present new evidence to a district court to give it more background on the technology involved or address new issues raised by the BPAI’s rejection, according to Brinckerhoff.

If the Supreme Court backs the Federal Circuit’s holding that applicants are essentially unlimited in introducing new evidence in Section 145 proceedings, it would confirm that these district court cases are a viable option for applicants, Brinckerhoff says.

“Practitioners have assumed that they could put in new evidence to the district court; it’s not like people were thinking they couldn't,” she said. “But patent applicants may use these proceedings more frequently if the Supreme Court gives its stamp of approval on new evidence.”

When the USPTO rejects patent claims, parties sometimes file a request for continued examination with the agency in order to make additional arguments to get their claims allowed, but a Supreme Court ruling in favor of Hyatt may spur some applicants to opt for the Section 145 route to avoid delays at the patent office, according to Brinckerhoff.

“Before a party files a continuation application, it could be faster to deal with the district court instead,” she said. “There are reasons this type of proceeding should be used more frequently and those reasons could grow if the USPTO continues to face a backlog of patent applications.”

However, if the Supreme Court restricts or prohibits the ability to bring in new evidence, it may mean that even fewer Section 145 cases are brought by applicants, if at all, attorneys say.

The passage of the patent reform law last year could limit the influence of any decision in this case, according to McDermott Will & Emery LLP partner Paul Devinsky.

The America Invents Act calls for interference proceedings at the USPTO to be phased out over the next year, and all of the new post-issuance proceedings — post-grant reviews, inter partes reviews and derivation proceedings — will only allow for a direct appeal to the Federal Circuit, not district court, according to Devinsky.

As a result, fewer appeals of BPAI rulings may end up going to district court and more challenges will be directed to the Federal Circuit, he said.

Hyatt is represented in the action by Kellogg Huber Hansen Todd Evans & Figel PLLC.

The case is David J. Kappos v. Gilbert P. Hyatt, case number 10-1219, in the U.S. Supreme Court.

--Editing by Andrew Park.