Hyatt Revisited

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An Opinion Affirming the Federal Circuit Contains Few Surprises

Recently, in Kappos v. Hyatt, 2012 WL 1314010 (Hyatt II), the Supreme Court affirmed Hyatt v. Kappos, 625 F.3d 1320 (Fed. Cir. 2010) (en banc) (here, Hyatt I).

As the Federal Circuit recounts in more detail, Gilbert Hyatt "prevailed on over 93% of the examiner's rejections" at the BPAI. *Hyatt I* at 1324. Seeking to reverse the rest, he requested rehearing. His request was denied because the board found that he "raised new arguments that could have been presented earlier to either the examiner or the Board." *Id*.

Had Hyatt sought review under 35 U.S.C. § 141, review would be limited to evidence considered by the board. *Hyatt II* at *3. The board's refusal to entertain arguments as untimely could also have been challenged under 37 C.F.R. § 1.181. If still dissatisfied, suit could have been filed under the Administrative Procedure Act (APA). *See, e.g.,* Debost v. USPTO, 777 F.2d 156 (Fed. Cir. 1985) (challenging refusal to accept an unsigned check). Lacking rebuttal to the accusation of unreasonable delay, he is unlikely to have prevailed.

Instead, Hyatt sought review under 35 U.S.C. § 145 and submitted a declaration that apparently advanced the same arguments that the BPAI had found untimely. In any case, "[t]he Director argued that the court should not consider Mr. Hyatt's declaration because he did not previously submit it to the examiner or the Board." *Hyatt I*, 625 F.3d at 1324. Seeing his negligence to account for the delay, the court would not consider the declaration, and, based on only the PTO record, summary judgment was awarded to the Director. *Id*. at 1325.

Based on reasoning summarized in Section 145 Actions after *Hyatt*, the Federal Circuit opinion on review concludes, "the district court… abused its discretion in excluding the declaration." *Hyatt I* at 1338. *Hyatt II* agrees and confirms that the district court erred "under the view that it 'need not consider evidence negligently submitted after the end of administrative proceedings.'" *Id.* at *9.

Although a discussion of standards of review might seem premature, *Hyatt II* begins by discussing Dickinson v. Zurko, 527 U.S. 150 (1999) (Zurko). It mischaracterizes that opinion, however, by saying that it allows PTO findings to be set aside only when "unsupported by substantial evidence." *Hyatt II* at *3. Instead, *Zurko*, after finding that either APA § 706(2)(A) (arbitrary, capricious…) or § 706(2)(E) (substantial evidence) governs, chooses neither: "[I]t apparently remains disputed… (*a dispute we need not settle today*) precisely which APA standard… would apply." 527 U.S. at 157-58 (emphasis added).

It is noteworthy that *Zurko* also mentions § 145 review, saying, "new or different evidence makes a factfinder of the district judge. And nonexpert judicial factfinding calls for the court/court standard of review. …. [B]ut nothing in this opinion prevents the Federal Circuit from adjusting related review standards where necessary." 527 U.S. at 164.

Whether premature or not, the PTO is said to argue that its findings should be upset only for an ironic approximation of the standard it faulted in *Zurko*. On that point, *Hyatt II* notes that APA review is typically limited to the agency record. Because § 145 proceedings are not so constrained, it says, "[t]he PTO, no matter how great its authority or expertise, cannot account for evidence that it has never seen." *Hyatt II* at *5.

With regard to the more pressing issue, the opinion also rejects the notion that the administrative exhaustion doctrine mandates agency consideration prior to judicial consideration. *Id*. The reasons are, however, opaque. *Id*.

Unable to resort to general principles of administrative law or find answers in the text of § 145, the Court turns to R.S. 4915, § 145's predecessor. To that end, two opinions are considered, both involving interference proceedings, now governed by § 146: Butterworth v. United States ex rel. Hoe, 112 U.S. 50 (1884), and Morgan v. Daniels, 153 U.S. 120 (1894). *Id*. at *7.

Morgan is found unhelpful because review of factual support is based on only an unsupplemented agency record. *Hyatt II* at *8. *Butterworth* might be seen as less helpful because the focus — whether Cabinet officers, as supervisors, can reverse commissioner's decisions — is remote. Despite that, the latter is regarded as apt because it "carefully examined the various provisions providing relief from the final denial of a patent application" and "this Court reiterated [its] well-reasoned interpretation of R.S. 4915 in three later cases." *Id*. at * 7 (note omitted). On that basis, it agrees with the Federal Circuit's conclusion that review under § 145 is de novo. *Id*. at *8.

One observation is perplexing, however: "Although 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." *Id*. at *8. Perhaps the Court merely meant to warn against construing its opinion to govern § 146 suits.

Before concluding that the Federal Circuit's holding is amply supported, *Hyatt II* returns to issues addressed earlier, the need for deference and the risk of encouraging applicants to save arguments for court. It again states that courts cannot defer to findings the Office never made. Id. at *9. It also dismisses the PTO's prediction that applicants would "withhold evidence… with the goal of presenting that evidence for the first time to a nonexpert judge," saying: "An applicant who pursues such a strategy would be intentionally undermining his claims… on the speculative chance that he will gain some advantage." *Id*. at *9.

Justice Sotomayor, joined by Justice Breyer, nevertheless concurs to stress that the majority does not "foreclose a district court's authority… to exclude evidence "deliberately suppressed" from the PTO or otherwise withheld in bad faith." *Id*. at *11

Remarkably, neither opinion mentions costs as affecting incentives to suppress. As *Hyatt I* notes at 1337, the obligation under § 145 to bear "all the expenses of the proceedings" is a deterrent. Surely that, alone, deterred Hyatt from attempting to present in court facts that he apparently tried to ventilate within the Office.