

Must the Punishment Fit the Crime?¹

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I. Introduction

According to 37 CFR 41.128, “Sanctions”:

(a) The Board may impose a sanction against a party for misconduct, including:

(1) Failure to comply with an applicable rule or order in the proceeding;

(2) Advancing a misleading or frivolous request for relief or argument; or

(3) Engaging in dilatory tactics.

(b) Sanctions include entry of:

(1) An order holding certain facts to have been established in the proceeding;

(2) An order expunging, or precluding a party from filing, a paper;

(3) An order precluding a party from presenting or contesting a particular issue;

(4) An order precluding a party from requesting,

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obtaining, or opposing discovery;

(5) An order excluding discovery;

(6) An order awarding compensatory expenses, including attorney fees;

(7) An order requiring terminal disclaimer of patent term; or

(8) Judgment in the contested case.

What we find lacking from this rule, its “legislative history,” and the legislative history of its predecessor, 37 CFR 1.616, is any guidance whatsoever as to how an APJ or a panel of APJs is to decide what sanction to impose in a given case. Moreover, the predecessor rule provided only very general guidance. It stated, with emphasis of “appropriate” supplied:

(a) An administrative patent judge or the Board may impose an appropriate sanction against a party who fails to comply with the regulations of this part or any order entered by an administrative patent judge or the Board. An appropriate sanction may include among others entry of an order:

(1) Holding certain facts to have been established in the interference;

(2) Precluding a party from filing a paper;

(3) Precluding a party from presenting or contesting a particular issue;

(4) Precluding a party from requesting, obtaining, or opposing discovery;

(5) Awarding compensatory expenses and/or compensatory attorney fees; or

(6) Granting judgment in the interference.⁴

Under old Rule 616, the APJs had wide discretion in determining what sanction was “appropriate.” When old Rule 616 was added in 1984, the PTO gave little guidance on what would be “appropriate sanctions.” When Rule 616 was promulgated, the PTO merely stated: “The particular sanction to be entered would depend on the facts of a given case and ordinarily would not be entered prior to giving the affected party an opportunity to present its views.”⁵ The 1995 Amendments to old Rule 616 and the commentary on those amendments were directed at expressly granting the Board the authority to impose compensatory monetary sanctions.⁶ Finally, the amendment that created the present Rule and its commentary provided no guidance how the APJs should select sanctions.”⁷

The Federal Circuit reviewed Rule 616 sanctions imposed by the APJs under the abuse of discretion standard. An abuse of discretion could only be found if the sanction: (1) was clearly unreasonable, arbitrary, or fanciful; (2) was based on an erroneous conclusion of law; (3) rested on clearly erroneous fact findings; or (4) followed from a record that contained no evidence on which the Board could rationally base its decisions. Gerritsen v. Shirai, 979 F.2d 1524, 1529, 24 USPQ2d 1912, 1916 (Fed. Cir. 1992),

⁴ The fact that 37 CFR 1.616 required the APJs to impose “appropriate” sanctions but 37 CFR 41.128 does not supports the inference that the Board has deliberately loosened the standards for the imposition of sanctions. In the old days, the APJs had to be reasonable, but now they don’t!

⁵ 49 Fed. Reg. 48,455 (Dec. 12, 1984).

⁶ 60 Fed. Reg. 14,488 (Mar. 17, 1995).

⁷ 69 Fed. Reg. 49,960 (Aug. 17, 2004).

discussed in Gholz, A Critique of Recent Opinions of the Federal Circuit in Patent Interferences, 75 JPTOS 448 (1993) at § III.D., “Sanctions Awarded Pursuant to 37 CFR 1.616 Must Be Appropriate to the Offense.”

In Gerritsen, the Federal Circuit affirmed the board’s decision that what Gerritsen has done was sanctionable, but it found that the board had abused its discretion in its choice of sanction. Shirai had provoked the interference with Gerritsen’s patent. The EIC set the deadline for preliminary motions for August 19, 1989. On August 31, 1989, Gerritsen filed an application to reissue the patent in the interference. Gerritsen informed the EIC and Shirai of the reissue application by letter that same day, but it failed to move to add the reissue application to the ongoing interference proceeding as required by old 37 CFR 1.662(b). However, the EIC redeclared the interference sua sponte to include Gerritsen’s reissue application. The EIC designated all of the claims in the reissue application as corresponding to the count. At final hearing, the panel held, as a sanction, that Gerritsen’s reissue claims were all unpatentable--even though Gerritsen was awarded priority to the subject matter of the count!⁸ The Federal Circuit found that the Board abused its discretion in giving such a severe sanction.⁹

In Gerritsen, the Federal Circuit only defined what is an “appropriate” sanction in the negative by ruling that the sanction imposed by the board was not appropriate. The Federal Circuit did not give any guidance as to what sanction would have been “appropriate.”

⁸ Gerritsen, 979 F.2d at 1526, 24 USPQ2d at 1914.

⁹ Id. at 1532, 24 USPQ2d at 1919. The facts of this opinion are set forth at greater length with additional commentary in Mr. Gholz’s 1993 critique.

On remand, Gerritsen's sanction was reduced to a requirement to file a terminal disclaimer disclaiming two years of the patent term of the reissue patent.¹⁰

II. What the Regional Circuit Courts Have Said in Similar Situations

According to the eminent Circuit Judge Posner of the Seventh Circuit:

Sanctions, as we and other courts have repeatedly emphasized, are to be proportional to the severity of the wrong being punished. *** [Citations omitted.] In fact, proportionality is the cornerstone of a rational system of sanctions. [Citation omitted.]¹¹

FRCP 37(c)(1)¹² states that:

A party that without substantial justification fails to disclose information required by Rule 26(a) [automatic discovery - initial disclosures] or 26(e)(1) [supplementation of discovery] ... is not, unless such failure is harmless, permitted to use as evidence at a trial, at a hearing, or on a motion any witness or information not so disclosed. In addition to

¹⁰ Shirai v. Gerritsen, 28 USPQ2d 1993 (BPAI 1993).

¹¹ Goss Graphics Systems Inc. v. DEV Industries Inc., 267 F.3d 624, 627, 60 USPQ2d 1382, 1383-84 (7th Cir. 2001) (Posner, Circuit Judge).

¹² The Federal Circuit drew from the guidance provided by the regional circuits regarding review of discovery sanctions under FRCP 37 when analyzing the sanctions imposed in Gerritsen under old Rule 616. Gerritsen, 979 F.2d at 1528 and 1532, 24 USPQ2d at 1916 and 1919.

or in lieu of this sanction, the court, on motion and after affording an opportunity to be heard, may impose other appropriate sanctions.

The Advisory Committee notes to the 1993 amendments to FRCP 37(c)(1) state that the “without substantial justification” and the “unless such failure is harmless” provisions are intended “to avoid unduly harsh penalties in a variety of situations,” and that the rule affords a district court the authority to impose “other appropriate sanctions” in lieu of the exclusion of evidence.

Some of the regional circuit courts have used the following general framework to harmonize the two sentences from FRCP 37(c)(1) in order to review exclusionary sanctions under that rule: (1) the surprise to the party against whom the discovery would be used; (2) the ability of the party to cure that surprise; (3) the extent to which allowing the discovery would disrupt the trial; (4) the explanation for the party’s failure to disclose the discovery before trial; and (5) the importance of the discovery. Southern States Rack and Fixture, Inc. v. Sherwin-Williams Co., 318 F.3d 592, 597 (4th Cir. 2003); Woodworker’s Supply, Inc. v. Principal Mut. Life Ins. Co., 170 F.3d 985, 993 (10th Cir.1999) (relying upon the following four factors: (1) the prejudice or surprise to the party against whom the discovery is offered; (2) the ability of the party to cure the prejudice; (3) the extent to which introducing such discovery would disrupt the trial; and (4) the moving party’s bad faith or willfulness); and United States v. \$9,041,598.68, 163 F.3d 238, 252 (5th Cir.1998) (adopting the following factors: (1) the importance of the discovery; (2) the prejudice to the opposing party of allowing the discovery to be entered; (3) the possibility of curing such prejudice by granting a continuance; and (4) the explanation, if any, for the party’s failure to disclose this discovery).

More generally, the First Circuit held that the trial courts should consider “a multiplicity of pertinent factors, including the history of the litigation, the proponent’s need for the challenged evidence, the justification (if any) for the late disclosure, and the opponent’s ability to overcome its adverse effects. Surprise and prejudice are important integers in this calculus. So too is an assessment of what the late disclosure portends for the court’s docket.” Macaulay v. Anas, 321 F.3d 45, 51 (1st Cir. 2003) (citations omitted).

III. Comments

(1) The panel’s action on remand in Gerritsen suggests that the APJs think (or that the predecessor EICs thought) that the terminal portions of all patents are valuable. We think that that is clearly not the case. We suggest that, if the APJs are considering imposing a requirement such as the one the EICs imposed on remand in Gerritsen, they should invite comments from the parties as to (a) the expected value of the terminal portion of the patent rights and (b) whether it would be more appropriate to order the interferent being sanctioned to disclaim a portion of its patent right running forward from the date of the judgment or the date the interferent’s patent issues, whichever is later.

(2) “Let the punishment fit the crime” is a familiar maxim, which no doubt normally guides the APJs’ selection of a sanction. However, what should one do if one feels that an individual APJ has imposed an excessive sanction?

37 CFR 41.125(c), “Rehearing,” authorizes the filing of a request for “rehearing” [sic; reconsideration?], and 37 CFR 41.125(c)(5), “Panel Rehearing” authorizes the party requesting rehearing to request that a panel rehear a sanction order imposed by an individual APJ. However, 37 CFR 41.125(c)(5) also states that “A panel rehearing a

procedural decision [which we presume includes a decision to impose a sanction] will review the decision for an abuse on discretion.”

So, should one go back to the APJ who imposed the sanction or to a panel that would presumably include that APJ but also two of his or her colleagues?

In our judgment, the preferred course of action is normally to go back to the APJ who imposed the sanction. By the time the 14 days have lapsed, his or her initial choler may have cooled.¹³ And, we strongly suspect that the request for a panel review might irritate at least some of Their Honors, who no doubt feel that what they did was per se just and reasonable--else, why would they have done it?

¹³ As Circuit Judge Posner observed in Goss, “the district court’s annoyance at the parties’ failure to settle was not a valid ground for killing the plaintiff’s suit,” 267 F.3d at 627, 60 USPQ2d at 1384--which is how Judge Posner characterized the disproportionate sanction that the district court had imposed.