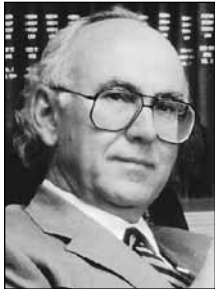


The Burdens of Proof and Persuasion in a 35 USC 146 Action¹

BY CHARLES L. GHOLZ² AND JOHN F. PRESPE³



Charles L. Gholz



John F. Presper

INTRODUCTION

While 35 USC 146 actions are often loosely referred to as permitting “de novo” review of the board’s decisions, it has been pointed out that it is more accurate to refer to 35 USC 146 actions as permitting “quasi-de-novo” review of the board’s decisions:

The phrase quasi-de-novo is used advisedly because[,] even though new evidence may be introduced[,] the decision of the...[board] may only be reversed if, after viewing the evidence, the district court is satisfied to a thorough conviction that the...[board] was in error.⁴

Neither party to a 35 USC 146 proceeding is starting from a clean slate. Rather, the action is for review of a decision by a specialized administrative agency the members of which are, by statute, presumed to have relevant expertise.⁵ Hence, to the extent that either party is trying to get the court to disagree with a holding by the board,⁶ it is fighting an uphill battle.⁷ But, how steep is the incline of that hill, and does the steepness vary depending on the issue in play?

WHAT THE SUPREMES SAID IN MORGAN V. DANIELS – AND IN WHAT CONTEXT

The foundational opinion in the extensive body of opinions on this subject is Morgan v. Daniels, 153 U.S. 120, 14 S. Ct. 772 (1894) (opinion by Justice Brewer for a unanimous court). In that case, the Supreme Court said that:

Upon principle and authority, therefore, it must be laid down as a rule that[,] where the question decided in the Patent Office is one between contesting parties as to priority of invention, the decision there made must be accepted as controlling upon that question of fact in any subsequent suit between the same parties, unless the contrary is established by testimony which in character and amount carries thorough conviction.⁸

Two questions immediately suggest themselves. First, is the holding limited to questions of fact concerning priority of invention? Second, what was the principle and what were the authorities upon which the Supremes relied?

The first question is, we believe, thoroughly decided by the opinions discussed hereinafter. The second question is more interesting. Both of the precedents on which the Morgan court relied were infringement cases,⁹ and the court directly imported the burdens imposed on the party challenging the validity of the claims in the involved patents in those cases into the lower court’s review of the issue of the patentability of the claims in Daniels’s application¹⁰:

These two cases are closely in point. The plaintiff in this case, like the defendant[s] in those cases, is challenging the priority awarded by the Patent Office, and should, we think, be held to as strict proof. In the opinion of the court below[,] the rule is stated in these words: “The complainant, on the issue here tendered, assumes the burden of proof, and must, I think, as the evidence stands, maintain by a clear and undoubted preponderance of proof that he is the sole author of that drawing.” * * * [However] The case as presented to the Circuit Court was not that of a mere appeal from a decision of the Patent Office.... There is always a presumption in favor of that which has once been decided, and that

presumption is often relied upon to justify an appellate court in sustaining the decision below. * * *

But this is something more than a mere appeal. It is an application to the court to set aside the action of one of the executive departments of the government. The one charged with administration of the patent system had finished its investigations and made its determination with respect to the question of priority of invention. That determination gave to the defendant [i.e., to Morgan] the exclusive rights to a patentee. A new proceeding is instituted in the courts – a proceeding to set aside the conclusions reached by the administrative department, and to give to the plaintiff [i.e., to Daniels] the rights there awarded to the defendant. It is something in the nature of a suit to set aside a judgment, and as such is not to be sustained by a mere preponderance of evidence. * * * It is a controversy between two individuals over a question of fact which has once been settled by a special tribunal, entrusted with full power in the premises. As such[,] it might well be argued, were it not for the terms of this statute, that the decision of the Patent Office was a finality upon every matter of fact.¹¹

The oft-quoted conclusion quoted at the outset of this article follows immediately after and is clearly based on that reasoning. However, as discussed in the conclusions at the end of this article, it is unlikely that a court would employ similar reasoning today if the issue were being considered ab initio.

WHAT THE LOWER COURTS SAID BEFORE THE ADVENT OF THE FEDERAL CIRCUIT

The issue of the proper burdens of proof and persuasion to impose in 35 USC 146 actions is, of course, a perennial, but it is not an issue that was given much thoughtful consideration before the advent of the Federal Circuit. Typical of the pre-Federal Circuit opinions on the subject is United States v. Szuecs, 240 F.2d 886, 112 USPQ 86 (D.C. Cir. 1957) (opinion by Circuit Judge Fahy for a unanimous panel). There the district court handling a 35 USC 146 action had ruled in favor of the plaintiff on the ground “that the burden of proof rested upon Szuecs to establish the allegations of

his complaint ‘by a preponderance of the evidence’ and that his testimony and that of witnesses in corroboration thereof established ‘by a preponderance of the evidence’ that Szuets . . . was the first inventor.”¹² The appellate court reversed in summary fashion, quoting the key passage from Morgan and ruling that:

Since the District Court in deciding the case appears clearly not to have applied the rule which requires [sic; requires] that the evidence carry ‘thorough conviction,’ the judgment, and the findings and conclusions upon which it rests, must be set aside, but the case will be remanded for reconsideration under that standard of proof as set forth in the Morgan and Esso cases.¹³

Somewhat more satisfactory is Tennessee Valley Authority v. Monsanto Chemical Co., 383 F.2d 973, 154 USPQ 509 (5th Cir. 1967) (opinion by Circuit Judge Gewin for a unanimous panel). For one thing, it generalized the holding in Morgan to apply to all findings of fact by the board.¹⁴ For another, it introduced the issue (subsequently conclusively decided by the Federal Circuit in Winner Int’l Royalty Corp. v. Wang, discussed hereinafter) of the different burdens that apply to review of a board holding confined to review of evidence before the board and to review of a board holding where the party attacking that holding introduced additional evidence during the 35 USC 146 proceeding.¹⁵

But the best of the pre-Federal Circuit opinions on this subject is probably Rex Chainbelt Inc. v. Borg-Warner Corp., 477 F.2d 481, 177 USPQ 549 (7th Cir. 1973) (opinion by Senior Circuit Judge Hastings for a unanimous panel).¹⁶ The reason that we are particularly fond of this opinion is that we love the following passage:

In conducting our review of the district court’s action in these interference proceedings, we have attached paramount significance to the roles to be played by the Board and the district court in the factfinding process. The record shows that plaintiff’s evidence before the district court touched mainly on the question of Westerman’s right to make the interference counts [i.e., what we would today call the question of the adequacy of Westerman’s support for his claims corresponding to the counts]. What little evidence plaintiff

introduced relative to actual priority of invention was largely cumulative of that before the Board. Plaintiff’s failure to present “new” evidence before the district court on this issue did not of itself require the district court to uphold the Board’s award. Nevertheless, consistent with the “through conviction” test enunciated in Morgan v. Daniels, we think that the less “new evidence there is before the district court, the more blatant the Board’s factual errors must have been before the district court is justified in reversing the Board’s award.”¹⁷

Another interesting case involved the famous polypropylene interference, Standard Oil Co. (Indiana) v. Montedison, S.p.A., 494 F. Supp. 370, 206 USPQ 676 (D. Del. 1980) (opinion by Wright, Senior District Judge¹⁸), *aff’d*, 664 F.2d 356, 212 USPQ 327 (3d Cir. 1981) (opinion by Circuit Judge Sloviter for a unanimous panel). The plaintiffs in that 35 USC 146 action alleged that Montedison committed fraud during prosecution and that that fraud was detrimental to their interference case.¹⁹ The district court agreed that Montedison committed fraud against Phillips, and therefore held that the Morgan rule requiring “thorough conviction” did not apply to Phillips. Specifically, the district court held that Phillips needed only to meet the preponderance of the evidence standard to overcome the board’s finding regarding its priority date.²⁰ Consistent with the sliding scale approach articulated in Rex Chainbelt, Judge Wright held that, because the new evidence offered in the 35 USC 146 proceeding “established that ‘fraud and perjury have intervened to impeach the very foundation upon which the ruling of the Patent Office [was] based,’ the Board’s Opinion must be given less weight and may be overturned upon a showing that a mere preponderance of evidence supports an alternative finding.”²¹ That said, Judge Wright found that Phillips had met the higher clear and convincing standard.

Unfortunately for the development of the law, the Third Circuit agreed that Phillips met the clear and convincing standard, and therefore did not address the issue of Montedison’s fraud.²²

WHAT THE FEDS SAID IN WINNER V. WANG

The game-changer in this area of the law is Winner Int’l Royalty Corp. v. Wang, 202 F.3d 1340, 53 USPQ2d 1580 (Fed. Cir. 2000) (opinion by Circuit Judge Michel for a unanimous panel).²³ In that case, the board had held for Wang on certain factual issues, the district court had reversed, finding that the board’s holdings were “clearly erroneous” based largely on additional evidence submitted by Winner at trial, and “Wang [had] appeal[ed], contending that the district court should have applied a substantial evidence standard of review on factual issues rather than, as it said it was doing, review for clear error.”²⁴

On appeal, the Federal Circuit started off by saying that:

We review the district court’s factual findings for clear error and its conclusions of law *de novo*, as with any bench trial. * * * It is not as clear, however, what degree of deference inheres in the standard of review the district court was required to apply to the Board’s decision. The parties agree that the district court was to reassess the Board’s ultimate conclusion as to obviousness *de novo*, but they disagree over the degree of deference, if any, the district court was required to give to the Board’s factual findings.²⁵

The court then engaged in an extended review of its own precedents in appeals from 35 USC 146 actions and the *ex parte* analog – 35 USC 145 actions. In particular, it discussed the Supreme Court’s then very recent opinion in Dickinson v. Zurko, 527 U.S. 150, 119 S. Ct. 1816, 50 USPQ2d 1930 (1999), which involved a 35 USC 145 action rather than a 35 USC 146 action. Finally, it held that:

the admission of live testimony on all matters before the Board in a section 146 action, as in this case, makes a factfinder of the district court and requires a *de novo* trial.²⁶ Thus, although the live testimony before the district court might be the same or similar to testimony before the Board in the form of affidavits and deposition transcripts, a district court should still make *de novo* factual findings, while treating the record before the Board when offered by a party “as if [it was] originally

taken and produced” in the district court. 35 U.S.C. § 146. Accordingly, because Winner submitted live testimony on all matters before the Board, the entire district court proceeding should have been a trial *de novo*, based both on the Board record and the district court evidence.

⁴ As this case involved further testimony relating to everything in issue before the Board, we express no opinion on whether testimony relating solely to some facts or issues results in other facts or issues being reviewed deferentially based solely on the fact findings of the Board. Indeed, we do not decide whether a given dispute could be parsed into discrete “issues” or facts so that such a determination could be made, or[,] if it could, how a court would draw the line between such facts or issues.²⁶

COMMENTS

In light of Winner, one would have to go very far indeed to find a 35 USC 146 action in which the plaintiff did not “submit[] live testimony on all matters before the Board”! Of course, the board’s opinion normally supplies the losing party with a roadmap as to how to do better in its “do-over” than it did in its first time at bat. However, even if the evidence that one submits in the 35 USC 146 action is only trivially different from the evidence that one submitted to the board, the fact that the evidence is submitted live is apparently talismanic.

The opinion in Winner is far from perfect. In particular, it makes the blatantly false factual assertions (1) that, “although the parties [to an interference proceeding before the board] ‘will be given an opportunity to appear before the Board to present oral argument at a final hearing,’ * * *, at no point in the interference proceedings is a party allowed to present live testimony before the Board”²⁷ and (2) that “in no case [i.e., in no interference proceeding before the board] is live testimony given before the Board, which would allow the Board to observe demeanor, to hear the witnesses rebut one another’s testimony in response to questioning from the parties and the judges, and thus to determine credibility.”²⁸ Mr. Gholz has railed against those false assertions repeatedly, notably in Gholz, The Board Does Hear Live Testimony and Make Credibility Determinations!, 18 Intellectual

Property Today No. 12 at page 12 (2011), pointing out that neither party made that assertion to the court. However, the court appears to give substantial weight to its own *sua sponte* “finding,” which, it must be conceded, significantly undermines the precedential value of Winner in a 35 USC 146 action where, as was not the case in Winner, one or both parties had submitted live testimony to the board.

Perhaps more significant for this issue in the long run is the somewhat similar point that the Supreme Court in Morgan based its decision on holdings in infringement cases. The fact that, in modern practice, the burden of proof on a party attacking the validity of a claim in an infringement action is clear-and-convincing evidence,²⁹ whereas the burden of proof on a party attacking the patentability of a claim (even a claim in a patent) in an interference proceeding before the board is only the preponderance of the evidence³⁰ surely would significantly undermine the precedential value of Morgan if this issue were to be reconsidered *ab initio*.

Finally, we note that none of the appellate opinions discussed in this article decides the question of the burden of persuasion faced by a party to a 35 USC 146 action that is attacking the propriety of an interlocutory decision by a single APJ, such as a decision refusing to authorize the filing of a substantive motion.³¹ Similarly, we note that none of the appellate opinions discussed in this article decides the question of the burdens of proof and persuasion faced by a party to a 35 USC 146 action that is attacking a holding by the board on a factual issue where either party to the interference was faced with an enhanced burden of proof (as opposed to the normal preponderance of the evidence burden) at the administrative level.³²

ENDNOTES

1. Copyright 2013 by Charles L. Gholz and John F. Presper. The views expressed herein are those of the authors and are not necessarily shared by their employer or its clients.
2. Partner in Oblon, Spivak, McClelland, Maier & Neustadt, LLP; Alexandria, Virginia. My direct dial telephone number is 703/412-6485, and my email address is cgholz@oblon.com.
3. Senior Associate in Oblon, Spivak, McClelland, Maier & Neustadt, LLP; Alexandria, Virginia. My direct dial telephone number is 703/412-3536, and my email address is jpresper@oblon.com.
4. Conard-Pyle Co. v. Thuron Industries, Inc., 201 USPQ 733, 736 (N.D. Tex. 1978) (speaking specifically of the analogous review of the TTAB’s decisions under 15 USC 1071(b)(1). However, as pointed out in Dunner et al., Court of Appeals for the Federal Circuit: Practice & Procedure §

- 19.03, “Comparative Analysis of Federal Circuit and District Court Review,” subsection [b], “The ‘De Novo’ Proceeding, the Introduction of New Evidence, and the Raising of New Issues,” “What the court in Conrad [*sic*; Conard]-Pyle said of decisions of the TTAB is, of course, also true of decisions of the BPAT.”
5. 35 USC 6 says that the administrative patent judges are “persons of competent legal knowledge [presumably in patent law] and scientific ability.”
6. That party is, of course, normally the plaintiff. However, the issues discussed herein can also apply to the defendant to the extent that the defendant is attacking a holding by the board.
7. See generally Dunner et al., *op. cit. supra*, § 10.03, subsection [c], “The Presumption of Administrative Correctness.”
8. 153 U.S. at 125, 14 S. Ct. at 773.
9. They were Coffin v. Ogden, 85 U.S. 120 (1873), and Cantrell v. Wallick, 117 U.S. 689 (1886).
10. As discussed hereinafter, both the Article I judges on the board and at least some of the Article III judges on the Federal Circuit draw a sharp distinction between the burdens of proof imposed on the attacking party in those two situations.
11. 153 U.S. at 123-24; 14 S. Ct. at 773.
12. 240 F.2d at 887, 112 USPQ at 86.
13. 240 F.2d at 887-88, 112 USPQ at 87.
14. 383 F.2d at 978-79, 154 USPQ at 512 (“where the Patent Office has decided a question of fact from the evidence before it, such decision must be accepted by the [district] court unless the contrary is established by evidence ‘which in character and amount carries thorough conviction’ that the Patent Office decision was in error.”).
15. An issue just slightly outside the scope of this article is how easy it is to obtain such additional evidence via discovery in a 35 USC 146 action. As to that issue, see Gholz and Mandrusiak, How Will Kappos v. Hyatt Impact 35 USC 146 Actions?, 19 Intellectual Property Today No. 7 at page 22 (2012).
16. Circuit Judge Hastings relied heavily on another “oldie but goodie”: Gold v. Gold, 237 Fed. 84 (7th Cir. 1916).
17. 477 F.2d at 486-87, 177 USPQ at 553. Followed in Yelsicol Chemical Corp. v. Monsanto Co., 579 F.2d 1038, 1042-43, 198 USPQ 584, 588-89 (7th Cir. 1978), and Piher, S.A. v. CTS Corp., 664 F.2d 122, 126-27, 212 USPQ 914, 917-18 (7th Cir. 1981).
18. Judge Wright was a favorite of the patent bar in his day.
19. 494 F. Supp. at 375-76, 206 USPQ at 686-87.
20. 494 F. Supp. at 375-76, 206 USPQ at 686-87.
21. 494 F. Supp. at 375, 206 USPQ at 332.
22. 664 F.2d at 361; 212 USPQ at 332.
23. Mr. Gholz was co-counsel for Winner Int’l Royalty Corp.
24. 202 F.3d at 1344, 53 USPQ2d at 1583.
25. 292 F.3d at 1344-45, 53 USPQ at 1583.
26. 292 F. 3d at 1347, 53 USPQ2d at 1585-86.
27. 202 F.3d at 1347, 53 USPQ2d at 1585.
28. 202 F.3d at 1347, 53 USPQ2d at 1585.
29. See, e.g., Microsoft Corp. v. i4i Ltd. Partnership, 564 U.S. ___, slip op. at 15, 131 S. Ct. 2238, 2250 (2011).
30. See, e.g., Bott v. Svendsen, 76 USPQ2d 1764, 1766 n.1 (PTOBPAI 2005) (non-precedential) (SAPJ McKelvey for a panel that also consisted of APJs Gardiner Lane and Moore); and Sernyk v. DeBonte, 72 USPQ2d 1355, 1358 n.3 (PTOBPAI. 2004) (non-precedential) (SAPJ McKelvey for a panel that also consisted of APJs Schafer and Poteate).
31. That issue was before the Federal Circuit in Connery v. Boucher, Appeal No. 2012-1612 – an appeal in which Mr. Gholz was co-counsel for Boucher. However, regrettably for the develop-

ment of the law, the Federal Circuit affirmed the BPAI's judgment in favor of Boucher under Fed. Cir. R. 36 – i.e., without opinion. Connery v. Boucher, No. 12-1612 (Fed. Cir. Apr. 9, 2013).

That issue was also before the district court in IBM Corp. v. Rambus, Inc., 2011 U.S. Dist. LEXIS 146392 (N.D. Cal. Dec. 20, 2011). In that case, Judge White granted Rambus' motion for summary judgment and denied IBM's cross-motion for summary judgment on "the narrow issue of whether the Board erred by not allowing IBM to file motions to add patents and applications to the pending Interference." *Id.* at *7. Observing that "the applicable standard for judicial review for Board decisions in interference proceedings is that set forth in the Administrative Procedure Act," under which "the court must set aside actions of the Board that are arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with the law, and set aside factual findings that are unsupported by substantial evidence," the district court held that, "[s]pecifically with respect to Board decisions pursuant to the permissive rules governing patent interference proceedings, such decisions are reviewed for abuse of discretion." *Id.* at *9. However, what Judge White (and counsel in the complaint) characterized as a "Board" decision was in fact a decision by a single APJ denying IBM's request for authorization to file motions adding fifteen Rambus patents and applications to the interference. See Oct. 11, 2006 Order – Motion Times – Bd.R. 104(c) in Interference No. 105,467. While such decisions are merged into the board's judgment for purposes of court review, Crown Packaging Technologies, Inc. v. Rexam Beverage Can Co., 559 F.3d 1308, 1311, 90 USPQ2d 1186, 1188 (Fed. Cir. 2009), they are no longer reviewed by a panel of three APJs unless the aggrieved party files a request for rehearing under 37 CFR 41.125(c)(5).

NOTICE OF FORTHCOMING ARTICLE:

This is to advise the reader that the authors of this article are now at work on an article specifically addressing APJ McKelvey's opinion for an expanded panel of the PTAB also consisting of CAPJ Smith, DCAPJ Moore, and APJs Lee, Gardner Lane, Zecher, and Arbes in Thomas v. Pippin, Int. No. 105,801 (Paper No. 99; 24 April 2013). That opinion significantly impacts the issue addressed here.

32. That was, of course, the issue decided by Senior District Judge Wright in Standard Oil Co. (Indiana) v. Montedison, S.p.A.