ORIGINAL

OFFICIAL TRANSCRIPT

PROCEEDINGS BEFORE

THE SUPREME COURT

OF THE

UNITED STATES

CAPTION: Q. TODD DICKINSON, ACTING COMMISSIONER OF PATENTS AND TRADEMARKS, Petitioner v. MARY E. ZURKO, ET AL.

CASE NO: 98-377 C.1

PLACE: Washington, D.C.

DATE: Wednesday, March 24, 1999

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IN THE SUPREME COURT OF THE UNITED STATES

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Q. TODD DICKINSON, ACTING :

COMMISSIONER OF PATENTS AND :

TRADEMARKS, :

Petitioner : No. 98-377

v. :

MARY E. ZURKO, ET AL. :

- - - - - - - - - - - - - - - - - -X

Washington, D.C.

Wednesday, March 24, 1999

The above-entitled matter came on for oral argument before the Supreme Court of the United States at 11:34 a.m.

APPEARANCES:

LAWRENCE G. WALLACE, ESQ., Deputy Solicitor General, Department of Justice, Washington, D.C; on behalf of the Petitioner.

ERNEST GELLHORN, ESQ., Washington, D.C.; on behalf of the Respondents.

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P R O C E E D I N G S

(11:34 a.m.)

CHIEF JUSTICE REHNQUIST: We'll hear argument next in No. 98-377, Q. Todd Dickinson v. Mary Zurko.

Spectators are admonished, do not talk until you get out of the courtroom. The Court remains in session.

Mr. Wallace.

ORAL ARGUMENT OF LAWRENCE G. WALLACE

ON BEHALF OF THE PETITIONER

MR. WALLACE: Thank you, Mr. Chief Justice, and may it please the Court:

The question in this case is whether the standards of judicial review specified by the Administrative Procedure Act apply to the Federal Circuit's review of decisions of the Patent and Trademark Office's Board of Patent Appeals and Interferences rejecting claims of unsuccessful patent applicants.

The en banc court of appeals held that those standards do not apply, but neither that court nor the respondents contend that by their terms these detailed provisions of the Administrative Procedure Act -- neither of them contest that by their terms they would directly apply and would prescribe review of the board's factual findings under the substantial evidence standard set forth in section 706(2)(E) of Title 5, set forth on page 5 of

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our brief.

QUESTION: Can I interrupt you, Mr. Wallace, and I know you don't care for that very much, but let me do it anyway.

(Laughter.)

QUESTION: Let's talk about the standard of the scope of review under the statute, 706, which says that under the APA the reviewing court will hold unlawful agency action found to be arbitrary, capricious, an abuse of discretion or otherwise not in accordance with law, subsection (A).

Now I would have thought that was the standard that we would be talking about. Somehow the Government, having espoused that for years, has now backed off, says no, it's under (E), unsupported by substantial evidence in a case subject to sections 556 and 557 of this title or otherwise reviewed on the record of an agency hearing provided by statute. I don't see how (E) applies to this situation.

Now, is the Government espousing that or what? I mean, it's very peculiar and I'd like you to speak to that for a minute, if you would.

MR. WALLACE: One does not preclude the other. We would not say that agency action should be upheld if it's arbitrary, capricious, or an abuse of discretion.

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We're not arguing that that standard is precluded. We --

QUESTION: Well, why aren't you arguing that it's required under the statute? I don't see how (E) covers this situation --

MR. WALLACE: (E) -- we think (E) comes in because under the patent code, the court of appeals is reviewing these determinations of the Board on the record before the Board. The patent code specifies that review in the court of appeals is to be on the administrative record, and while these are not hearings subject to sections 556 and 557 of the act, they are in our view, and we conceded before the en banc court, otherwise reviewed on the record of an agency hearing provided by statute.

QUESTION: That doesn't mean --

MR. WALLACE: The Board proceedings are provided for in the patent code, and --

QUESTION: Mr. Wallace, I thought the distinction was, indeed, I wrote a law review article on this --

(Laughter.)

-- in the days when I knew something about administrative law.

I thought that the distinction is that the arbitrary-capricious standard, the first standard, applies to all determinations, determinations of policy,

determinations of fact that are not based on a closed record and so forth, and that the substantial evidence test is merely one instance of what constitutes arbitrary or capricious action when you are -- when you are making a determination on a closed record.

That is to say, if you have a closed record and there is not even substantial evidence in that record to support your factual determination, substantial evidence being the amount of evidence that would take a jury case to the jury, if you don't have that, it has to be arbitrary or capricious anyway. But this is just a specification of what arbitrariness and capriciousness consists of with regard to fact-finding on a closed record.

MR. WALLACE: I agree entirely --

QUESTION: Thank you.

MR. WALLACE: -- and I wish I could've put it as well --

QUESTION: Well, good, if you agree, fine --

MR. WALLACE: -- and I'd amend my answer to Justice O'Connor.

QUESTION: If you agree, then we come back to the question that was asked about whether or not the proceeding before the Patent Office is a proceeding on a record.

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I always thought -- now you get 50 law professors in administrative law, you'll get 50 different views, but I thought that a -- this Court is not a court of record. A court of appeals is not a court of record. A district court is a court of record. There is a stenographer there who takes down the record, which we do not go outside of.

Is this hearing before the Patent Office a proceeding of record? I doubt it. I very much doubt it. Certainly I could find nothing that supports that it is. Rather, it's like any other agency proceeding, say, informal rulemaking, where of course you review it in a court of appeals, informal rulemaking on the record before the agency, but it was not in the sense of 556, 557, or what I think is a second clause here, not record in that sense.

So you can explain to me, what is this proceeding like before the Patent Office. It didn't sound like any record proceeding I've ever heard of.

MR. WALLACE: Well, the -- there is a record compiled based on what the applicant and the examiner submit to the board. This is review of the examiner's decision and the statute does require when review is sought in the Federal circuit that that record be transmitted by the commissioner to the Federal circuit.

QUESTION: Do they keep that -- does the stenographer's thing all kept and nobody can -- there's like a -- like a district court record, is that what it looks like?

MR. WALLACE: Well, there isn't always an oral hearing. Sometimes it's submitted on the papers, but the record is compiled so as to enable the board to trans --

QUESTION: But when they do have oral proceedings, when somebody goes in and talks to that examiner, is there a stenographer present, or the equivalent thereof, that keeps this record which is then official?

MR. WALLACE: I -- I could not say, Justice Breyer. What I -- what we are relying on is that the patent code specifies that review in the court of appeals, when appeal is taken to the court of appeals --

QUESTION: It says on the record before the Patent --

MR. WALLACE: -- has to be on the record and the preceding section says that the commissioner is required to transmit the record. So the record that has been compiled, which would be the record that the board based its decision on, is the record to which this review proceeding is confined, and that is the basis on which we would say that this is a -- otherwise reviewed on the

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record of an agency, provided by statute. We thought -- provided by statute refers to the review was to be on the record, even though it is not --

QUESTION: You're going to sweep all -- you'll sweep in informal rulemaking in general, then, and you'll suddenly have the substantial evidence standard applying to -- to --

MR. WALLACE: Well, this is not rulemaking.

QUESTION: -- 550 -- I understand that. But I mean, on your definition of what (E) is, you're suddenly going to get the substantial evidence standard applying in a host of informal rulemaking proceedings reviewed by the -- by the D.C. Circuit. That's what I'd worry about, about taking that --

MR. WALLACE: Well, I -- we would not go that far. We're -- we're dealing here with what amounts to a form of rejection of a particular applicant's claim, an adjudication of the particular claim.

QUESTION: Well, Mr. --

QUESTION: But of course, it doesn't matter, as you agreed, since the substantial evidence test is simply a version of the arbitrary or capricious test, that any case that doesn't have even that minimum of substantial evidence to get you to the jury, and is decided that way, has to be arbitrary or capricious. So it really doesn't

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matter, does it, whether we're talking about (E) or (A).

MR. WALLACE: Well, I think for purposes of the present case it does not. The court --

QUESTION: Well, if we'll -- if we get over that hurdle and can conclude it doesn't matter, would you enlighten us on one other thing. I guess the C. A. Fed. applies a clear error standard. Is that the standard they articulate?

MR. WALLACE: Well, they --

QUESTION: And I always thought maybe that was a -- a standard that was more generous, really, to the agency finding. I mean, we're not going to upset it unless it's clearly erroneous. And all of a sudden they're telling us that that's more stringent than a substantial evidence standard. Would you --

MR. WALLACE: That --

QUESTION: -- explain that to me?

MR. WALLACE: -- that has been the reaction of a number of lawyers not familiar with this long-standing controversy that -- they -- when I tell them what the issue is in this case -- or at least they want to know, well, which is the more deferential --

QUESTION: Yeah.

MR. WALLACE: -- standard.

QUESTION: Right.

MR. WALLACE: What counts for purposes of this case, since this is a determination of what -- of how review should proceed in the Federal circuit, is the understanding of the Federal circuit about the difference between the two standards and why they're choosing one standard rather than the other, and they explain that, I think quite candidly, in the en banc opinion that they were insisting on what we would term a more intrusive, less deferential standard where they can proceed on their own reasoning rather than in compliance with the standards of the Administrative Procedure Act, which would require them to determine the case not on the basis of their own interpretation of the record transmitted to them, but on the basis of whether the board's reasoning was justifiable as not arbitrary or capricious --

QUESTION: Well, if you'd -- if you'd take our opinion in U.S. Gypsum, which was many, many years ago, but there the Court said, I think, that clearly erroneous gives the court more latitude than enough evidence to go to the jury.

It said, although there's enough evidence to support the verdict, the Court is convinced that a mistake was made, and isn't that basically what we're talking about here?

MR. WALLACE: That -- I think that is precisely

the concept of the en banc court, that they have more leeway to make their own determinations that otherwise they would --

QUESTION: Mr. Wallace, although that's true as to the current members of that Court, is it not possible that Justice O'Connor's suggestion would apply to the use of clear error, those words, in all the cases decided before 1947?

MR. WALLACE: Well, that certainly is a way of looking at them. Those cases, as -- as we explain in our reply brief, do not sharply differentiate between the two standards of review that we have under discussion in this case. They will juxtapose a sentence about clear error with a sentence or two about the propriety of def -- of deferring to the technical expertise of the board in this kind of proceeding.

QUESTION: Well, it was well settled -- well settled, wasn't it, that if the patent examiners were not in agreement, did not concur, the predecessor to the court of appeals for the Federal circuit would give a very searching analysis of the record.

MR. WALLACE: That -- that was true --

QUESTION: And so they were consistent in that, at least, but they were not consistent, we all know, in the words they used.

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MR. WALLACE: The en banc court said that until the early fifties, at least, the CCPA as it was called, the Court of Customs and Patent Appeals, had disparate approaches to review. What --

QUESTION: But that's not -- it seems to me that that's fatal to your case. I mean, you are asking us to apply a provision which makes an exception to the normal APA requirements, where there are additional requirements imposed by statute or otherwise recognized by law.

Now, when you say, by law, I'm prepared to acknowledge at least for the sake of argument that by law doesn't mean just by statute, that it can mean by practice. But it seems to me it must be such a consistent and clear practice that it has the same kind of uniformity and force as a provision in a statute, and I --

MR. WALLACE: But that was our contention, precisely.

QUESTION: But you say it's one way when there are dissenting opinions in the board, it may be another way in another case, that they may have been using clearly erroneous to mean the same thing as substantial evidence in some cases. It doesn't seem to me to have the kind of clarity that -- that this expression, by law, requires.

MR. WALLACE: Well, that's the -- the other side is arguing that it has that kind of clarity. I -- we're

taking the position that this was not recognized -- another requirement recognized by law within the meaning of this provision, section 559, or -- the original section 12 --

QUESTION: Or either --

QUESTION: Yes, you're right. I -- I'm coming down on the wrong person here.

MR. WALLACE: Right.

(Laughter.)

MR. WALLACE: Again, I agree with you entirely.

(Laughter.)

QUESTION: Well, this will give them time to --

(Laughter.)

QUESTION: This will give them time to think about it.

(Laughter.)

QUESTION: Mr. -- Mr. Wallace --

QUESTION: Let me ask you a question.

QUESTION: -- I don't agree for this reason. Clear error is the standard if we went from the PTO to the district court, right? And then --

MR. WALLACE: Right.

QUESTION: And then the Federal circuit is reviewing -- so, you have one mode of review where undoubtedly the standard is clear error and my thinking

is, if there is any doubt, why should the standard vis-a-vis the Federal circuit be different if you come to it through another court, and one would think that you've had an extra layer of review, that the Federal circuit at that point should be more, not less deferential.

But if you go from the district court, you get clear error and, if you go from the agency, you tell us you get arbitrary and capricious or substantial evidence.

MR. WALLACE: Well, when you say get clear error, it depends on what you're talking about. Clear error is the standard of review by the court of appeals of the district court's factual findings when the district court has heard evidence on its own, but the case law, and there's not a great deal of it, does indicate that when you go from the PTO to the district court and don't ask the district court to make findings on its own, but to decide it on the basis of the board's record, that it's then a -- not a trial de novo.

But we would argue that the district court, too, should then be reviewing under the APA substantial evidence standard, and I can refer the Court to two cases on this subject. One is McKay v. Quigg, 641 F. Supp. 567, in the District Court for the District of Columbia, at page 569, and Gould v. Quigg, 822 F.2d 1074.

QUESTION: Well, then you're suggesting that

it's really the would-be patentee's choice, because the patentee could say, district court, look at the record from the PTO, but I'm going to put in some other things. So --

MR. WALLACE: There is that choice, which has been a historical choice of proceeding by a bill in equity, and the direct review proceeding was added later on. The great bulk of applicants choose to go directly to the Federal circuit. It's quite risky to go to the district court, because it's not only the applicant who can submit additional evidence; it's also the commissioner who can submit additional evidence.

And rather than deal with one examiner who on his own spent an average of two days looking into the prior art, you might be faced with a team of lawyers who've prepared the case with great care and have brought in expert witnesses who will expose much more of the prior art that could put your application at risk. And --

QUESTION: I don't understand what your position is as to what the district court should do, if the person does go the district. You say, if no additional evidence is submitted, you use the substantial evidence test, but if any additional -- one scrap of additional evidence is submitted, then you review everything de novo and use a clearly erroneous --

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MR. WALLACE: De novo as to claims on which additional evidence is put in, and to the extent both parties are standing on the record that was made before the board, then it's review of the --

QUESTION: You use substantial evidence.

MR. WALLACE: Right.

QUESTION: So you have two standards.

MR. WALLACE: It's a hybrid proceeding, is what those cases that I just said call it.

But I just wanted to finish my previous answer, and the last sentence of 35 U.S.C. 145 says that the expenses of the proceeding will be borne by the applicant, all the expenses, and that includes the expenses of the commissioner's expert witnesses. So the commissioner can bring in --

QUESTION: Yes, but if you see that the price at the end of the line is a patent, you might be willing to put up that money.

And you have said something that hadn't occurred to me before. When I looked at this complex I said, well, gee, this favors the rich, because you go to district court, if you can afford the time and the money, otherwise you go to Federal circuit, which is faster and less expensive if you go there directly, but you said that you face a risk in the district court that you wouldn't face

before the Federal circuit.

MR. WALLACE: Correct, that the commissioner will expand the record unless they are adversity applicant, because the record can be expanded by either party, whereas the applicant is in much greater control of the record he's been making in the administrative proceedings, which are basically ex parte, and there are also ways of continuing the administrative proceeding and then reapplying again under section 120.

So the great bulk of review is sought through the direct route to the court of appeals for the Federal circuit. And there are reasons --

QUESTION: It's not simply -- I had thought of the model with the tax court and the deficiency you can't pay up, so you go that route, and it's not because of a greater risk or something, it's just, I don't have the money.

MR. WALLACE: Right, right. I really learned more about this during the course of argument preparation in talking with the people from the PTO and the disincentive that really exists for many applicants to use the district court proceeding. It's available. It's occasionally used, but --

QUESTION: It's a strange -- I'm unaware of any other case where you have a court that takes evidence, yet

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which is not reviewing it de novo. You're saying when they take evidence they don't make the decision de novo. They just apply a clearly erroneous standard instead of a substantial evidence standard. That's very strange.

MR. WALLACE: They make the decision de novo with respect to any matter as to which they've taken evidence.

QUESTION: Oh. Well, then that's not a clearly erroneous standard. That's --

MR. WALLACE: That's correct. It's -- they would only --

QUESTION: It's totally -- it's their call.

MR. WALLACE: But there may be --

QUESTION: And then it would be reviewed on appeal de novo in a Federal -- I can see --

MR. WALLACE: That there may be claims as to which neither party introduced any evidence and relied solely on the record before the board. That would -- that would be a review proceeding.

But where they have taken evidence from either party that was not in the Board's record as to particular claims, then those claims are being reviewed de novo in the district court, and the court of appeals applies a clearly erroneous standard of review to the district court's findings when the district court has made the

findings.

But as to administrative findings, a somewhat more deferential standard of review is appropriate. That was first articulated just before -- 3 months before the adoption of the Administrative Procedure Act, in the Ooms opinion where Judge Edgerton was writing a great deal for the -- on this subject for the Court of Appeals for the District of Columbia at the time, and made that distinction.

QUESTION: Mr. Wallace, if we -- if we were to adopt the respondents' and the C. A. Fed.'s position, would it have destabilizing or uncertain effects in other areas of administrative law?

When I began looking at the briefs, I thought, well, the Government will give me a parade of horribles. I didn't find one. Is this really a -- an issue that's unique to the case before us and it's not going to have much more far-reaching effect if we adopt the C.A. Fed. position? Or --

MR. WALLACE: We're not aware of active litigation which has raised similar claims as to other agencies, but it -- this reading of section 559 certainly could raise such questions, if it were established, as is certainly not clear on the face, that requirements, where it's used five other times in the original section 12

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clearly to mean requirements for the administrative proceeding itself, or the conduct of the administrative proceeding, could also refer to the standard of judicial review, and that additional could mean instead of the standard specified by the act, which is not what I found in looking at a number of dictionaries about the meaning of additional, which means supplementary, but not to displace or instead of --

QUESTION: Well, the argument that they're making is that it doesn't displace it. I mean, when you have a higher standard it -- it accepts the lower standard and goes beyond the lower standard. I mean, the clearly err -- you know, the clearly erroneous test embraces the substantial evidence test and goes further. I mean --

MR. WALLACE: But it is contradictory to it, and it is a situation in which after a 10-year enterprise in formulating the Administrative Procedure Act to bring some unity and coherence to bring order out of what, if not chaos, had been disarray, the Savings Clause would be read in a way to really contradict the effect -- the effectiveness of that --

QUESTION: Well, I don't think that's correct entirely, Mr. Wallace. If the purpose of the APA was to kind of straighten out some rather confused doctrines and make sure there was -- that the agencies had to have at

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least a certain amount of evidence to sustain, then if there was a practice in some other agency that said, we require even a higher agency, it seems to me that isn't inconsistent.

MR. WALLACE: A practice in the agency, what would the -- certainly an example of what would be something comparable to a statute otherwise required by law would be an agency rule that did not contradict a statutory requirement. But the standard --

QUESTION: Do you agree --

MR. WALLACE: -- of review really doesn't change what requirements there are in conducting the agency proceeding.

QUESTION: Do you agree, Mr. Wallace, that the cases that respondents cite in their brief are a fair sample of the pre-APA patent cases, as far as whether this standard was actually applied?

MR. WALLACE: A fair sample selectively described, because many --

QUESTION: Well, what other cases do you think are relevant that they haven't pointed out? Because I -- the hard question for me is whether this was indeed a practice. I mean, maybe the other -- I don't even get to the other questions and -- and --

MR. WALLACE: Well, we --

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QUESTION: -- can I rely on the cases they've set forth in here?

MR. WALLACE: We discussed some in our reply brief, and we generally think that the Federal circuit very candidly and accurately described the state of the law as being ambiguous and as having what they -- what could be called a menu of standards that were being applied and selected from, and they say any of these are recognized by law within the meaning of this provision.

QUESTION: Well, I thought they said that the phrasing might have been uncertain, but the practice was consistent. That's the way I understood their opinion.

MR. WALLACE: No, they said it's too ambiguous to -- to --

QUESTION: Well, Mr. Wallace, we can ask them what they said, but let me ask you this question. It's -- you talked about the APA and the importance of uniformity, and I understand the model: agency that knows a lot about one field, generalist court that is exercising review. But we have something peculiar here in that Congress has designated this Court as the patent specialist. These cases don't go generally to the courts of appeals that -- so --

MR. WALLACE: It's a court with many other responsibilities as well. The author of the panel opinion

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here was the former head of the tax division in the Justice Department.

QUESTION: Yes, but there is an expertise -- forgive me -- expertness in that court that -- even in the staffing, and the Congress did that deliberately and said, patent's going to be one of your main --

MR. WALLACE: That better enables them to perform --

QUESTION: So it's not -- at least --

MR. WALLACE: -- their review function. It doesn't mean they should step into the shoes of the agency to whom Congress has entrusted the decisionmaking.

QUESTION: All I'm attempting to say is, it isn't the standard agency with know-how in a particular area, generalist court, which is what I think Congress had in mind in the forties when the APA was written.

MR. WALLACE: If I may reserve the balance of my time.

QUESTION: Very well, Mr. Wallace.

Mr. Gellhorn, we'll hear from you.

ORAL ARGUMENT OF ERNEST GELLHORN

ON BEHALF OF THE RESPONDENTS

MR. GELLHORN: Mr. Chief Justice, and may it please the Court:

This is basically a question of statutory

construction, of construction of section 12 of the Administrative Procedure Act as originally adopted, and what we have here are two or three, we believe, relatively straight-forward questions.

The first is whether the judicial review standard applies or is covered, encompassed by section 12. Section 12 starts out that, nothing in this act. We believe that that covers the preceding sections rather clearly. Likewise judicial review is, we believe, a requirement because judicial review imposes upon the agency an obligation to meet a certain standard, here that its evidence meet the clearly erroneous test.

Then there are two questions related to the clearly erroneous test. First, does the clearly erroneous test constitute an additional requirement beyond that imposed by the Administrative Procedure Act. Again, we believe that this Court has spoken on that issue relatively clearly in 1993 in the Concrete Products case, which we researched after receiving the Government's reply brief.

And there this Court said that review under the clearly erroneous standard is significantly deferential, requiring a definite and firm conviction that a mistake has been committed, and application of a reasonableness standard, i.e., the substantial evidence test, is even

more deferential, so what we have here is an additional requirement.

In addition, we have under the clearly erroneous test what we believe is clearly recognized law. We identified 43 cases in which clearly erroneous --

QUESTION: Mr. Gellhorn, may I just on that very point, because this is -- I have the same concern Justice Scalia does, of how clearly established was the rule on which you rely. And the Government -- I want to be -- in their reply brief, say you cite 36 cases, that all of them affirm the examiner, except four, and that three of those were -- they applied de novo review, and the fourth they applied also an erroneous standard.

Have they fairly summarized those cases?

MR. GELLHORN: They, as far as we know, fairly summarized them, but we would point out that their argument is in effect -- first of all, there are not just 36 cases. We identified 43. The New York amici brief lists 90 between 1929 --

QUESTION: But in those -- in that number, were there more that -- where they reversed the patent examiner?

MR. GELLHORN: Not that we could identify, but there are, of course, other cases where they reversed the examiner. And what we would suggest here is, you had an

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established practice, well-settled law stated by the Court of Customs and Patent Appeals in 1930. You have no announcement of the standard in most cases, because they know what it is. Nobody is debating it.

The Court makes law, as we hope it will in this instance, by affirmance. The fact that there's been fewer reversals tells us absolutely nothing about the standard and, in fact, what we have is a very consistent and, we would suggest, single standard. What we have is the use of different terms: clear error, manifestly wrong, manifest error. Common law courts frequently use slightly different language, but the message here is one of remarkable consistency.

QUESTION: But how can we really make a judgment about that consistency without literally going back and examining the record in every one of those cases, which we clearly can't do?

I mean, if we had terminology that was clear and consistently used, it would be easy for us, comparatively. But to say, well, the terminology really is not the primary evidence here, practice is, that's a pretty tough standard for me to be able to handle. How do I do it?

MR. GELLHORN: Justice Souter, the Federal circuit said there was a clearly articulated standard. They said it was -- they used different terminology, but

they used them interchangeably.

So we're not talking practice. We're talking about a standard that had been adopted by the Court of Customs and Patent Appeals, and everybody believed it and understood it at the time.

QUESTION: But may I just clarify one thing. Do you think the clear error as used in those terms is the functional equivalent of clearly erroneous as we've since used it?

MR. GELLHORN: Yes, Your Honor, and it goes back to Morgan v. Daniels in 1894.

QUESTION: And has the -- was the term clearly erroneous used in any of those terms -- cases?

MR. GELLHORN: Yes, Your Honor. Many of the cases used the term clearly erroneous.

QUESTION: They did.

MR. GELLHORN: They used the term manifestly wrong.

QUESTION: You know this --

MR. GELLHORN: They called them -- they stated that they were interchangeable. They would intercite each other, and there was --

QUESTION: Well, would you answer the same question I asked Mr. Wallace. In common parlance, we would think a clearly erroneous standard was not as strict

a standard as substantial evidence.

MR. GELLHORN: As this Court has said, in fact, it is more and, as it has been used by the Court of Customs and Patent Appeals, it was always more, and what we're talking about is two elements. Under the substantial evidence test, we're talking about what's the quantum of evidence in the record, as this Court stated in the Steadman case.

In the clearly erroneous test, you include the substantial evidence test and add a qualitative evaluation. Is that evidence, when looked at in its entirety, persuasive enough to persuade us that they didn't make a mistake?

Now, there's deference in both situations, but much greater deference in applying the substantial evidence test.

QUESTION: Do you have any case that -- from the board that makes it clear that that's the -- that there is a difference between their clearly erroneous test and substantial evidence?

I mean, that -- it's the dog that didn't bark that gives me the trouble. Once the APA was adopted, you would have thought that if they were going along with a different standard, somebody would have said, hey, we know the A -- it was clear they were governed by the APA. You

would have thought somebody would have said, well, of course, the APA has a substantial evidence test, but we're applying the good old -- the good old clearly erroneous

You'd think somebody would have noted it, whereas, in fact, they just go on talking the same way, as though as far as they're aware, substantial evidence and clearly erroneous, you know, tweedle-dum, tweedle-dee.

MR. GELLHORN: Please recall, Your Honor, that the Court of Customs and Patent Appeals continued with its jurisdiction over the Patent Office from 1946 to 1982, so they were continuing a tradition they had already started. Nothing had changed. Everybody had understood that the Administrative Procedure Act did not affect the standard of review, so you see no discussion of it.

When the Federal circuit --

QUESTION: Why did everybody assume that? Because they focused on this obscure provision, which we've been debating about, you know, whether it's additional and so forth? Did anybody ever mention it?

MR. GELLHORN: As far as we know, the issue was not raised. The issue --

QUESTION: But it is odd, because your approach basically tells us, well, the APA just sets a minimum standard, and any other standard that's more, well, then that applies. And -- do you think people in general

thought that the APA was just setting up some kind of minimum standards here, and --

MR. GELLHORN: As quoted on page 38 of our brief, Your Honor, Senator McCarran, in discussing the Administrative Procedure Act, made clear that it is an outline of basic essentials. It was not, in other words, suggested to be a cap.

On the other hand, of course, there also was provided in section 12 specific ways to alter the standard. One is, looking retrospectively. Under the first sentence you look back to prior law, and if that prior law was more demanding, more obligatory, added requirements, that continued.

For future changes, however, it required an express statute, but there was no limitation that it be an additional requirement. And we think, in that construct it makes sense to interpret this as being a situation that we had law established over many years.

The only time the word substantial evidence was mentioned is in the two cases identified by the Government happened to be not reviews of the Patent Office by the Court of Customs and Patent Appeals, but reviews by the district court, an issue, of course, totally irrelevant to this case.

Because the only thing we're talking about here

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is the standard of review applied by the Court of Customs and Patent Appeals to decisions made by the board or the Patent Office.

QUESTION: But we have no case where you can show us that it really would make a big difference in any particular appeal. I mean, we don't -- I don't have a sense for whether it matters.

MR. GELLHORN: It clearly matters in terms of the view of the court of Federal appeals -- excuse me, the court of the Federal circuit. They have stated that. We believe in this case that we would be sustained under either test. But -- and it has not been established to the contrary. And we also have only evidence that in terms of the last decade, in the 1990s, there have been 32 reversals of the Patent Office by the Federal circuit.

So there -- this is not a test that has been overused. It is not unduly intrusive, as the Government suggests. On the other hand, now, as long as you're following one standard, you're unlikely to find cases that say it makes a difference if we would adopt another standard.

QUESTION: Mr. Gellhorn, I -- apart from this case, where the Federal circuit said to -- said to this Court, we want you to tell us which standard is right and we're telling you that this case is going to come out

differently if we apply the more deferential substantial evidence than if we apply the slightly more stringent clearly erroneous test.

But I never saw a court of appeals doing that before, saying the standard of review is not just some thing that we -- a button that we push, but that it really, in this case, it's going to come out differently. Is there any other case where a court of appeals has said that?

MR. GELLHORN: Not to our knowledge, Your Honor. However, I think it really relates to the standard of obviousness, articulated by this Court in Graham v. John Deere, where we have three questions that are put before the agency and the Court in terms of determining obviousness.

One, what were the claims made; two, what was the prior art, the difference between the claims and the prior art; and, third, would a person of ordinary skill in this field have known that additional difference?

Now, all of that is presented to the Patent Office and to the board on a written record. There's no cross-examination, there's no direct testimony, there are no expert witnesses, and so what we have is a record that is available to the Federal circuit on the same basis that it is available to the board and therefore the Federal

circuit is in the position to make that evaluation, and to determine what is the result in light of the evidence presented. It's not a question of testing the demeanor of witnesses.

QUESTION: In answer, or further exploration of Justice Souter's question about what are we supposed to do in determining what the earlier practice was, can we say at least that the patent bar is in general agreement that, a) the standard makes a difference, and b) the reviewing courts and the court of appeals have been consistent in using the strict standard? Is that a fair characterization of the briefs or is the patent bar somewhat more divided than that?

MR. GELLHORN: I think that's -- I think the bar is united on that, and the summary is perhaps best expressed in the New York Intellectual Property Lawyers Association brief, which goes through the cases, the 90 cases. It lists them all, and identifies that feeling. But it also --

QUESTION: Do you know any bar that would not favor a more liberal standard of review?

(Laughter.)

MR. GELLHORN: Of course not, Your Honor.

QUESTION: Of course not.

MR. GELLHORN: On the other hand, that doesn't

lessen its importance or its impact. In other words, it seems to me that what we have here is a situation in which the courts have, almost without exception, used the same genre of terminology to talk about a more intru -- or a more rigorous review.

Second, nobody has challenged it. Third, you have a situation where the opinions are relatively short, so you're not going to get a long discussion on it. When the issue comes up, then, before the court of the Federal circuit, which included, of course, and still includes, judges who had been on the Court of Customs and Patent Appeals, without dissent, they all adopt the understanding that the clearly erroneous test was the one that was to be applied.

And we think, therefore, under section 12 of the Administrative Procedure Act, you have recognized law. It constitutes an additional requirement because it imposes upon the agency a standard of evidence that it otherwise would not have to meet and, we would suggest, it is consistent with the Administrative Procedure Act's establishment of higher standards. At the time --

QUESTION: We do have a case we decided in 1966, Consolo v. Federal Maritime Commission, in which the Court said that any standard other than substantial evidence was inconsistent with the APA. Now, it didn't address the

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question of what the Federal Maritime Commission's practice had been.

MR. GELLHORN: I -- there's no question that the substantial evidence test and the arbitrary and capricious test are different from. Now, when does different become inconsistent? It seems to me that is a metaphysical question that I'm not prepared to respond to. On the other hand, the question is, is it absolutely inconsistent? Is it repugnant to? In that circumstance, the Savings Clause generally would not preserve the preexisting standard.

But we have a situation in which the statute by its own terms say an additional requirement shall be continued. Well, that would suggest that the mere fact that it is inconsistent is no reason not to permit it to go forward. The Consolo court was merely -- focused solely on the substantial evidence test --

QUESTION: Well, I suppose it would make a difference to whether the standard were more demanding or less demanding than that set forth in the APA. If you think of the APA as having been enacted to, you know, considered -- substantial evidence considered on the record as a whole, when the -- this Court in one case said, I think, all you had to look at was the side that favored the party that won before the agency.

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MR. GELLHORN: That's correct. We agree, Your Honor. And there's no doubt that at the time the Administrative Procedure Act was being considered, there was considerable debate about the meaning of the substantial evidence test, even though this Court had spoken rather clearly in Consolidated Edison and Columbia and Amway.

QUESTION: And the act was the product of the -- of the bar associations who liked greater review of agency actions, rather than --

MR. GELLHORN: But the entire thinking at the time was, we want to set a floor which the agencies must meet in terms of procedure and which the courts should apply on a uniform basis. On the other hand, recognizing that they had not studied all agencies, the Attorney General's committee that was examining administrative procedure studied 28 agencies and issued 27 monographs, but identified 51 agencies.

QUESTION: Your namesake.

MR. GELLHORN: Yes, sir. Proud to be.

And in that situation, there were 23 agencies that the Government had not studied. They didn't pretend to know all of the answers, and as a result, wisely put in a provision that if there are others out there, they should continue.

Now, to respond to a question posed earlier -- are there any other situations in which this is likely to arise? -- we can find absolutely none. We have looked with care. There is perhaps one, and that is the Plant Protection Act, which is also reviewed by the Federal circuit, and it does not have a stated standard of review. On the other hand, there have only been three cases since 1930, none of which addressed the substantial evidence or the review standard. We don't believe it's going to arise in any other circumstance.

QUESTION: Do you think --

QUESTION: Mr. Gellhorn, do you agree with Mr. Wallace's information about the district court, when one chooses those routes it's not simply a matter of time and money, but that the would-be patentee faces a risk of expanding the record against him in the district court, and that would be reason not to go that way.

MR. GELLHORN: I don't believe that's an accurate statement simply because there are virtually no district court cases, and there is no precedent or history, to my understanding, of the Patent Office making substantial admissions. Expert testimony, for example, is unheard of in these cases. These cases are not decided on the basis of expert testimony.

QUESTION: But at least you agree that people

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seldom use the district court route.

MR. GELLHORN: They don't use it because it's far more expensive. It's much quicker to go to the court of appeals, and the court of appeals has been understanding and is expert in the understanding of patent applications. Whereas when you come to the district court, you are facing a much less uncertain situation of a generalist district court being faced or obliged to make that determination.

QUESTION: May I ask you two questions, though each very brief. Is there a procedure before the Board of Patent Appeals whereby the applicant can supplement the record at all, or is it always on what -- precisely what was before the examiner?

MR. GELLHORN: As we cite on page 37 of our brief, there are permitted under the rules that the board would take additional evidence.

QUESTION: I see.

MR. GELLHORN: Now, that additional evidence, however, make come in by the board itself identifying that evidence, not telling the parties -- the party about it, and relying upon that evidence in its decision, one more reason why this is not a closed record.

QUESTION: I see. Now, the second question I had, would you have a comment on -- one of the briefs I

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remember quoted Caspar Ooms as saying, in effect, the Government's right. Do you have a -- he was pretty familiar with this area of the law, as I remember him. You know who I'm talking about, Caspar Ooms?

MR. GELLHORN: Yes.

QUESTION: Yeah. One of the briefs -- I don't have it in front of me -- quoted him as saying that the APA did not change the standard of review on review of patent applications.

MR. GELLHORN: That's correct. That is the Government's reply brief, and that's an accurate quote. We also make the same point in the quote from an individual named Zitmer in our brief.

But what they're saying is they have the understanding that the clearly erroneous was applied and that it could continue to apply. Now, it may be that they hadn't read the APA with great care. I'm not certain, of course, whether they knew about section 12 or not. But the point was, their understanding in 1946 was that the standard then being applied by the Court of Customs and Patent Appeals, the clearly erroneous standard, was not being changed.

And there is no case in the 90 cases where anything other than clearly erroneous or its equivalent was being articulated.

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QUESTION: But, of course, those comments were made before the decision in the Gypsum case, where we really spelled out what clearly erroneous means.

MR. GELLHORN: But clearly erroneous test, in terms of patent law, has a longer history. It goes back --

QUESTION: Well, of course, that's -- that's what we're all -- that's the big -- that's really the issue.

MR. GELLHORN: Well, except that the Court used -- this Court used the same words as the Gypsum court test of a firm conviction to identify the standard. And that's -- and it hasn't changed in any case that we were able to find of this Court under the clearly erroneous standard, so we believe that there is no basis to identify any other test.

QUESTION: What is your response to Justice O'Connor's initial question? I'd always thought, but hadn't thought about it too much, that the second clause of 706(E) means -- there are loads -- you know, there are loads -- they're basically referring to a case where a statute requires a decision after a hearing on a record. The statute requires that. Some such cases fall within 556, 557, some do not. They fall within exception to 554, or there are various exceptions throughout 556, 557.

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But this says, in any case where a statute requires a decision after a hearing on a record, you must have substantial evidence. I mean, that's all it means.

Now, if that's so, then I take it, it wouldn't apply here?

MR. GELLHORN: That's correct, Your Honor, we believe that --

QUESTION: All right, then we would be under arbitrary-capricious, which in my opinion, but maybe not yours, would make a difference. That is to say, that, itself -- I don't know quite how to treat it, then, because that, itself, I would think would give the agency greater leeway to determine where the agency is expert, and where the board that it's reviewing is expert. It might well. It might well have greater leeway to overturn an agency decision, being not arbitrary, than it would were it technically to apply substantial evidence on the record as a whole.

I don't know how you think -- what you think about that.

MR. GELLHORN: Well, Your Honor, we believe it's very clear, there is no statute requiring a hearing on a record before the Patent Board.

QUESTION: All right. But then if that's so, then I think we're in -- we're in arbitrary-capricious.

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And once we're in arbitrary-capricious, I'm not sure where to go, because it's quite possible that what they do right now falls well within arbitrary-capricious. I mean, all they're saying, basically, is, we know more about these agencies than the typical court knows about a typical agency and, therefore, we will be a little tougher on them.

That's fine. It might be fine under substantial evidence, but I would think it would be fine under arbitrary-capricious.

MR. GELLHORN: We agree with that statement, Your Honor. We think that the substantial evidence test under 706(2)(E) does not apply because there is no hearing on an agency record. We submitted that as part of our brief to the Federal circuit. We --

QUESTION: Do you think arbitrary and capricious is the same as clearly erroneous?

MR. GELLHORN: No, we do not --

QUESTION: No? No. So you'd still have to engage in the -- in the --

QUESTION: Yes, but it was a different -- it would give them more flexibility to be tougher. It would give them -- and after all, we're dealing with shades here, what Cardozo called a shadowland, that probably has no reality, which is my --

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(Laughter.)

MR. GELLHORN: The understanding, we believe, of the courts, is that the arbitrary and capricious test is less rigorous and less demanding.

QUESTION: That was certainly the Federal circuit's understanding, because as I remember -- and maybe I remember incorrectly -- they weren't dealing with the substantial evidence. They compared two standards. One was called arbitrary and capricious.

MR. GELLHORN: Right.

QUESTION: They said, as we understand that standard --

MR. GELLHORN: Right.

QUESTION: -- it doesn't give us as much control over the PTO as -- so at least the Federal circuit was clear about what it thought the labels meant. And it said, if we have a slightly more stringent clearly erroneous review, then we can exercise more control over the PTO than we could if the standard were arbitrary and capricious.

MR. GELLHORN: That is also our understanding, Your Honor. I hope I wasn't misleading Justice Breyer.

QUESTION: Because I think Justice Breyer's question was suggesting, well, they're really the same. And the whole thrust of the Federal circuit's opinion is,

no, they're not. It makes a difference. We want clear error because it gives us a little more control over this agency than we would have if all we had was arbitrary and capricious.

MR. GELLHORN: I had understood both you and Justice Breyer to agree on this point. And this Court has spoken frequently, actually, on it. If you look at the benzene case, it talks about the arbitrary and capricious test as not being as demanding as the substantial evidence test. If you look at the cases where Congress has imposed the substantial evidence test on review of rulemaking, rather than the arbitrary and capricious test, there is discussion that that is more demanding. If you look at this Court's opinion in Concrete Products, it makes it clear --

QUESTION: How is it possible that a quantum of evidence which is not enough to take a case to the jury would not be arbitrary and capricious? How is --

MR. GELLHORN: No, I think we would posit the opposite way, Your Honor. We would say that there may be a quantum of evidence to take it to the jury, but it still would not be persuasive enough to satisfy the clearly erroneous test.

QUESTION: Ah. I thought you were comparing substantial evidence with arbitrary and capricious.

MR. GELLHORN: No.

QUESTION: I agree that clearly erroneous is higher than both arbitrary and capricious and substantial evidence. I tend to think that arbitrary and capricious and substantial evidence, however, are identical, and that the point of (E) is simply that the -- that the substantial evidence has to be in the record.

MR. GELLHORN: We accept that and accept your opinion in the --

QUESTION: Do you also -- do you -- in my experience in 20 years of being a judge, 30 of teaching administrative law, and three editions of the case book, I have never found a case in which somebody would say, this would be affirmed if it were substantial evidence, but not if it's clearly erroneous or the contrary. I did find one case by Judge Leventhal, who thought he had found that particular snark that he had hunted.

(Laughter.)

QUESTION: And yet, he said on conclusion, I have to agree, I'd come out the same way, either standing?

I mean, is that your experience as well, this makes no practical difference whatsoever?

MR. GELLHORN: No. I wouldn't reach it in that way, Your Honor.

(Laughter.)

MR. GELLHORN: There's no question that the -- that the terminology does not have a hard edge to it, and does not necessarily give us precise guidance. On the other hand, it does do what this Court said in 1951, it expresses a mood. It talks about the kind of care we expect the agency to engage in.

We've operated here -- the Patent Office has operated for all of these years under the clearly erroneous standard. That changes its behavior. And one ought to understand, they get 200,000 applications a year. In 1998, they rejected 48,000 of them. We're talking about a situation where subtleties are not insignificant and they have an impact. And if this Court were to conclude --

QUESTION: But those figures -- that they've rejected 48,000 out of 200,000?

MR. GELLHORN: Yes, Your Honor.

QUESTION: Gee, they grant a lot of patents, don't they.

(Laughter.)

MR. GELLHORN: 154,000 --

QUESTION: I would read it the other way around.

MR. GELLHORN: And those 154,000 do not come before this Court. They have no complaint.

(Laughter.)

QUESTION: Well, not by this route, they don't.

(Laughter.)

MR. GELLHORN: Now, I do want to answer a question that came up, that the court below used the terminology, our reasoning, which was discussed earlier in the questioning of Government counsel.

And while we wouldn't necessarily have selected that word, we do think it does not undercut the opinion. First of all, we could find no other decision by the CCPA or the Federal circuit that used it, so I don't think it's intimately affected with the clearly erroneous test. In addition, we believe it's actually inherent in the clearly erroneous test because it was used initially by this Court.

QUESTION: What is the word you're referring to?

MR. GELLHORN: Our reasoning.

QUESTION: What is it?

QUESTION: Our reasoning.

MR. GELLHORN: Our reasoning. There was a discussion earlier by the Court with Mr. Wallace on the meaning of the term, our reasoning, and what does it mean in connection with the clearly erroneous test.

And what I was seeking to explain was, that that was not introducing some kind of new concept that was unheard of. In fact, it's origin, as far as we can tell,

is this Court's opinion in District of Columbia v. Pace, a 1944 decision.

QUESTION: Well, it was a little odd. I mean, the C. A. Fed. seemed to say, we're not going to analyze the reasoning of the Court of Patent Appeals. We're just going to look at our own. I thought it was very peculiar.

MR. GELLHORN: But if you look at the decision of this Court in the Pace case, it uses the term that if it's clear error, then there is no support in reason if the second court could not make its finding as a result of its own judgment. And all that our reasoning linguage means, we believe, is that the court applying the clearly erroneous test is deciding for itself whether or not that evidence is sufficient, and that's all.

As a consequence, the follow-on argument, which is made by the Government, that this is somehow a violation of the Chenery doctrine, we believe is an erroneous reading of what happens. What the court does under the clearly erroneous test is say that, you don't have enough evidence, and the case is remanded back. It does not make its own findings. And therefore, that terminology has no weight or holding in terms of reaching this result.

Finally, we would point out that as a matter of policy, the Federal circuit has made it clear that

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consistency between review directly to it under section 141 from the Patent Office, and review to it through the district court ought to have the same standard, that Congress in 1982 made it clear that uniformity in the patent law and its application was an important value, and that it, along with the Administrative Procedure Act's desire to strengthen the quality of review and the standard of practice ought to be approved.

QUESTION: But Mr. Wallace says that it's your theory that would destroy the consistency, because he says the district court ought to be applying a substantial evidence test when there's no additional evidence introduced. What is your response to that?

MR. GELLHORN: There is no basis, we believe, in terms of applying that under the Administrative Procedure Act, simply because in this instance we have, again, a long-standing practice -- they acknowledge that -- from going all the way back to 1894, because the decision in Morgan v. --

QUESTION: I think you've answered the question, Mr. Gellhorn.

Mr. Wallace, you have one minute remaining.

REBUTTAL ARGUMENT OF LAWRENCE G. WALLACE

ON BEHALF OF THE PETITIONER

MR. WALLACE: On page 26a of the petition

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appendix, the court of appeals en banc, after reviewing all of the cases, said that the clearly erroneous was simply one of several standards discernible from the case law prior to the 1947 enactment.

That is not an additional requirement otherwise recognized by law just because the courts were acquainted with it and sometimes applied it. That is not the kind of thing that should override the specific resolution after 10 years of what the standard of judicial review should be, specified in the Administrative Procedure Act.

QUESTION: Although the court of appeals thought differently.

MR. WALLACE: They -- would they --

QUESTION: You know, I mean, I have the -- I have real difficulty --

MR. WALLACE: They did it partly on the basis of stare decisis, their own precedent since 1982.

QUESTION: I have real difficulty trying to figure out from this lofty perch whether they were indeed consistently using a clearly erroneous test. And I am very much inclined to, if I can't figure it out, rely on the judgment of the people down there who deal with this regularly and some of whom have sat on the board.

MR. WALLACE: Well, they conscientiously looked at these cases. They were cited to them. Amici appeared

before them in the en banc proceeding, and they said it was one of several standards being used before '47.

QUESTION: But I thought they also said that they used different word formulas, but in any case the thrust was a little tighter than arbitrary and capricious.

MR. WALLACE: Well, that -- not exclusively. They said including clear error and its close cousins.

CHIEF JUSTICE REHNQUIST: Thank you, Mr. Wallace.

The case is submitted.

(Whereupon, at 12:34 p.m., the case in the above-entitled matter was submitted.)

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Q. TODD DICKINSON, ACTING COMMISSIONER OF PATENTS AND TRADEMARKS, Petitioner v. MARY E. ZURKO, ET AL.
CASE NO: 98-377

and that these attached pages constitutes the original transcript of the proceedings for the records of the court.

BY: Ilona M. May
(REPORTER)