

Interference Trial Section
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The opinion in support of the decision being entered today is binding precedent of the Interference Trial Section of the Board of Patent Appeals and Interferences. The opinion is otherwise *not* binding precedent of the Board.

Paper No. 200

UNITED STATES PATENT AND TRADEMARK OFFICE

BEFORE THE BOARD OF PATENT APPEALS
AND INTERFERENCES

STEPHEN A. **JOHNSTON**
and JOHN C. SANFORD
(5,580,716; 5,840,481; and 09/299,426),

Junior Party,

v.

ROGER N. **BEACHY**,
ROBERT T. FRALEY, and STEPHEN G. ROGERS
(06/917,027),

Senior Party.

Interference No. 104,286

Before McKELVEY, Senior Administrative Patent Judge, and SCHAFER, LEE, and TORCZON, SPIEGEL, GARDNER-LANE, MEDLEY, and TIERNEY, Administrative Patent Judges.¹

TORCZON, Administrative Patent Judge.

DECISION
(ON MOTIONS RELATING TO BEACHY'S
COMPLIANCE WITH 35 U.S.C. 135(c))

¹ Administrative patent judges Schafer, Spiegel, Gardner-Lane, Medley, and Tierney did not participate in the hearing. They join this decision pursuant to Standard Operating Procedure 2 (rev. 4) at 2 n.1 (Chief Adm. Pat. Judge 2000). See LeVeen v. Edwards, 57 USPQ2d 1406, 1407 n.1 (BPAI (ITS) 2000) (regarding expanded Trial Section panels).

INTRODUCTION

This decision addresses Johnston's motions relating to Beachy's compliance with 35 U.S.C. 135(c) in a previous interference. The final judgment and decision on the remaining issues are presented in a separate paper (Paper No. 201).

FINDINGS OF FACT

The 102,614 interference

1. Beachy was a party in the 102,614 interference, in which the Board awarded judgment against Beachy. Monsanto was and remains Beachy's real party-in-interest. The real party-in-interest for the other party, Barton, was Agracetus, Inc.
2. Monsanto sought review of the judgment under 35 U.S.C. 146 (JX 1024).
3. During the § 146 action, Monsanto and Agracetus "reached a mutually agreeable settlement of their claims and counterclaims" and jointly requested entry of an order disposing of the interference by reversing the Board's decision against Beachy (JX 1025). On 22 May 1996, a district court entered the requested order.
4. A copy of that request was filed in the 614 interference.
5. Beachy has not identified any other written agreement filed in the 614 interference.

Securities and Exchange Commission filing

6. Monsanto filed a Form 10-Q with the Securities and Exchange Commission stating:

"In May 1996, Monsanto acquired the plant-biotechnology assets of Agracetus from W.R. Grace & Co. for approximately \$150 million."

Monsanto Co., Form 10-Q at 4 (filed 13 August 1996).²

Johnston's motions

7. Johnston filed preliminary motion 10 (Paper No. 80) seeking judgment against Beachy under 37 C.F.R. § 1.633(a) for failure to comply with 35 U.S.C. 135(c).
8. Johnston filed contingent miscellaneous motion 11 (Paper No. 81) seeking additional discovery under 37 C.F.R. §§ 1.635 and 1.687(c).
9. Johnston motions 10 and 11 were denied in an order entered by a single administrative patent judge (Paper No. 152).
10. After a panel decision on motions, Johnston was authorized to develop the issue further for review at final hearing (Paper No. 179 at 7-8). An appendix to the latter order set out questions for Beachy to have answered by a Monsanto official in a declaration or affidavit. Johnston was authorized to cross-examine the declarant to test the veracity of the answers.
11. Beachy provided an assistant general counsel of Monsanto, Grace L. Bonner, who provided a declaration. Ms. Bonner answered the first question, whether Monsanto had acquired Agracetus, negatively, stating that Monsanto had "only acquired certain assets of Agracetus" (Paper No. 181, attachment at 2, ¶3). Since the remaining questions depended on a positive answer to the first question, Ms. Bonner declined to answer the remaining questions.

² <http://www.sec.gov/Archives/edgar/data/67686/0000950114-96-000200.txt> at 5. See e.g., Eli Lilly & Co. v. Barr Labs., Inc., 251 F.3d 955, 969, 58 USPQ2d 1869, 1879 (Fed. Cir. 2001) for the use of SEC filings as a party admission.

12. Monsanto's evasiveness on the scope of the acquisition, even if technically permissible, needlessly increased the costs and contentiousness of this interference.
13. The administrative patent judge authorized cross-examination of Ms. Bonner and expanded the scope of cross-examination to permit Johnston to inquire into the scope of the Agracetus acquisition (Paper No. 182).
14. During cross-examination, the parties disagreed whether Johnston's questions were within the scope of the authorization (Paper No. 192, transcript, passim). The parties initiated a call with the administrative patent judge, but could not provide specific examples of the problems during the calls so the issue was deferred (Paper No. 192, transcript at 70-74). During redirect examination, Beachy's counsel sought to elicit testimony within the scope of cross-examination authorization and Johnston's counsel objected to the redirect as being outside the scope of the cross-examination (Paper No. 192, transcript at 103-04).
15. Following the cross-examination, Johnston filed miscellaneous motion 18 (Paper No. 189) seeking judgment or additional discovery under 37 C.F.R. §§ 1.635, 1.645, and 1.687(c). The administrative patent judge denied the motion (Paper No. 190).

Bonner testimony

16. The deposition transcript contains the following testimony regarding the scope of Monsanto's acquisition of Agracetus assets (Paper No. 192, transcript at 39-40):

Q (By Mr. Goldman)³ I believe, Ms. Bonner, you testified that Monsanto acquired the plant biotechnology assets of Agracetus; is that correct?

A Monsanto acquired the bulk of the Plant Sciences assets of Agracetus, Inc.

Q When you say "the bulk," is there was there assets that were not acquired by Monsanto in that technology?

A There were assets that were shared with another aspect of Agracetus's business, and they went with the purchaser of that portion of the business. That was a mammalian related business, not a plant related business. And Monsanto received a license under those, under those assets.

Q Were there any Plant Sciences technologies previously held by Agracetus that were not acquired by Monsanto in that transaction?

A There were some assets related to transformation that were equally applicable to mammalian cell transformation as well as plant cell transformation, and those assets were -- went with the purchaser of that portion of the business, and Monsanto received a license to those -- under those assets.

17. Ms. Bonner further testified (at 42):

Q [false start omitted]

In the transaction between Monsanto and Agracetus involving Plant Sciences, was the subject matter of the Barton [614] interference conveyed to Monsanto?

A The Barton and McSwain (sic) patent application was one of many patents and patent applications listed in the assets of the Sales Agreement.

Q The Sales Agreement of assets from Agracetus to Monsanto, correct?

³ The deposition is punctuated by many requests to re-read questions and answers and many disagreements between counsel, which results in a particularly choppy narrative flow.

A Yes.

18. Ms. Bonner further testified (at 43):

Q (By Mr. Goldman) Were there any other agreements [relating to the 614 interference]?

A The interference was listed in a schedule to the asset sale as one of several litigation matters which involved the assets that were for sale.

19. The testimony continued (at 44-45):

Q (By Mr. Goldman) What did the schedule say about the listing regarding the Beachy/Barton [614] interference?

A It said that the interference was -- was existing and that one party had appealed the judgment of the Patent Office [sic], I believe. It's not those exact words, but along those lines.

Q Did it say anything about settlement?

A No, it did not.

Q Did it indicate that the parties were pursuing settlement?

A No, it did not.

Q Just stated that the litigation existed, correct?

A Correct.

Q Were there any other agreements between Agracetus and Monsanto relating to the Beachy/Barton [614] interference during the sale of assets that you referred to? As part of.

A No. There were, as I've stated, there was the [the joint motion to and final order from the district court] that were ancillary and shown as an exhibit to the asset sale agreement, and an exhibit to that sale agreement listed the litigation matters.

Q Were there any oral agreements or understandings between Agracetus and Monsanto relating to settlement of that interference?

A Not to my knowledge.

Q But it's been your testimony you weren't really involved in those settlement discussions; isn't that correct?

A Correct.

20. Ms. Bonner's testimony regarding what Monsanto acquired (i.e., the plant science assets of Agracetus and some licenses to generic technology) is very credible.

21. Ms. Bonner's testimony, and Beachy's counsel's defense of the deposition, suggests very careful parsing of questions and answers regarding how the settlement was reached, particularly as it applies to the district court action reviewing the 614 interference. Consequently, the Board has most likely not received a full and accurate account of the timing and mechanics of that settlement.

DISCUSSION

A. The discovery disputes

Discovery during an interference is limited in scope.⁴ Schubert v. McKernan, 188 USPQ 496 (Bd. Int. 1975); Tropix, Inc. v. Lumigen, Inc., 53 USPQ2d 2018, 2020 (BPAI (ITS) 2000)

⁴ Limited administrative discovery is consistent with the policy directive that the patent interference rules must be construed to secure a just, speedy, and inexpensive determination of every interference. 37 C.F.R. § 1.601. This policy goal is consistent with the legislative intent in creating the present Board of Patent Appeals and Interferences to make interferences "simpler, more expeditious, and less costly". 130 Cong. Rec. H12231 (11 Oct. 1984) (sponsor's remarks). It is also consistent with the availability of an evidentiary trial, 35 U.S.C. 146, to review administrative interference decisions. Cf. 5 U.S.C. 706(2)(F); Dep't of Justice, Attorney General's Manual on the Administrative Procedure Act 109 (noting the provision of a judicial trial to establish facts where there is no statutory administrative hearing); Winner Int'l Royalty Corp. v. Wang, 202 F.3d 1340, 1347, 53 USPQ2d 1580, 1585-86 (Fed. Cir. 2000) (emphasizing the importance of live testimony in a §146 action).

(distinguishing interference discovery from discovery under the Federal Rules of Civil Procedure). Additional discovery must be expressly authorized, 37 C.F.R. § 1.687(a), and is only authorized in the interests of justice.

The administrative patent judge's decision on Johnston's first motion (miscellaneous motion 11) for additional discovery was denied for several reasons: failure to exhaust reasonable alternatives, skepticism about the merits of Johnston's interpretation of §135(c) as a matter of law, and the administrative advantages of deferring the issue until later in the proceeding (Paper No. 152). The first reason has not been challenged. The second reason is the subject of this panel's review. The third reason is moot since Johnston was subsequently authorized to conduct limited discovery. The administrative patent judge also expressed concern that, on the facts of this case, which appeared to involve the acquisition of a business, discovery could involve huge volumes of only marginally relevant information (Paper No. 152 at 4).

The administrative patent judge's decision on Johnston's second motion (miscellaneous motion 13) for additional testimony granted limited discovery in the form of a series of questions for Monsanto to answer regarding the Agracetus acquisition and an opportunity for Johnston to cross examine those answers (Paper No. 179). When Monsanto's answers proved to be much narrower than the scope necessary for a reasonable decision, the scope of the inquiry was expanded (Paper No. 182). After the contentious Bonner cross-examination, Johnston filed miscellaneous motion 18 seeking either adverse judgment on the § 135(c) issue as a sanction against Beachy or an expanded course of discovery including production of documents, a second deposition of Ms. Bonner, and deposition of an additional Monsanto attorney. The

administrative patent judge denied the motion on the basis that the Bonner deposition provided an adequate basis to address the § 135(c) issue (Paper No. 190).

Discovery decisions are reviewed for an abuse of discretion. 37 C.F.R. § 1.655(a); see also Cochran v. Kresock, 530 F.2d 385, 396, 188 USPQ 553, 561 (CCPA 1976) (applying former rule 37 C.F.R. § 1.287(c) (1975)); accord Biotec Biologische Naturverpackungen GmbH v. Biocorp, Inc., 249 F.3d 1341, 1354-55, 58 USPQ2d 1737, 1746-47 (Fed. Cir. 2001) (reviewing a district court decision). In the present case, the scope of discovery was unquestionably narrow, but the administrative patent judge provided reasons for the narrowness, including the dictates of interference rules and practice, the real potential for abuse on the facts of this case, and his skepticism about whether Johnston would prevail on the merits. None of those reasons, individually or collectively, are sufficient to establish any abuse of discretion independent of Johnston's arguments on the merits. Moreover, the degree to which the administrative patent judge might have abused his discretion would also be a function of the merits of Johnston's arguments. For the reasons provided below, the administrative patent judge's decisions on the scope of additional discovery did not result in any prejudice to Johnston on the merits and thus on the facts of this interference did not constitute an abuse of discretion.

B. The scope of § 135(c)

Subsection 135(c) was enacted to prevent anticompetitive agreements under the protective cover of patent interference proceedings. S. Rep. 87-2169 (1962), reprinted in 1962 U.S.C.C.A.N. 3286, 3286. The statute accomplishes this goal by rendering interference settlement agreements and any involved or resulting patents unenforceable unless the agreement

is filed with the United States Patent and Trademark Office prior to the "termination" of the interference. Subsection 135(c), however, leaves open many questions about its scope and operation. See generally C.L. Gholz, "The Law and Practice Under 35 U.S.C. 135(c)", 80 J. Patent & Trademark Off. Soc'y 561(1998) (Part I) and 80 J. Patent & Trademark Off. Soc'y 675 (1998) (Part II) (collectively "Gholz"). Johnston's motions require us to address some of these unresolved questions.

1. Does § 135(c) apply to settlements during judicial review

The settlement in question occurred not during the 614 interference itself, but afterward when Beachy sought review in a Federal district court under 35 U.S.C. 146. Johnston insists that § 135(c) applies during judicial review for two reasons: the rationale underlying the statute applies with equal force during judicial review and the definition of "termination" of the interference in the interference rules extends the scope of the interference to include subsequent judicial review.

With regard to the first reason, Johnston cites the legislative history for the proposition that making such agreements available will discourage anticompetitive agreements. Johnston then states without analysis that the same rationale applies to judicial review under 35 U.S.C. 141 and 146. Gholz notes (at 569) that the law is not clear on this point and recommends⁵ filing any settlement during interferences under 35 U.S.C. 291 and, by implication, in actions under § 146, but does not address settlements during review in the Court of Appeals for the Federal Circuit.

⁵ The recommendation appears to be out of an abundance of caution in view of what Gholz sees (at 563) as the harsh, even penal, consequences of failure to comply with § 135(c), not out of any particular argument that the statute necessarily applies to actions under §§ 146 or 291.

While there does not appear to be any case law directly on point, the Federal Circuit noted the issue as one of interest in CTS Corp. v. Piher Int'l Corp., but declined to reach the issue in that case. 727 F.2d 1550, 1556 n.6, 221 USPQ 11, 15 n.6 (Fed. Cir. 1984).

With regard to the second reason, Johnston points out that the definition of "termination" in 37 C.F.R. § 1.661 states:

After a final decision is entered by the Board, an interference is considered terminated when no appeal (35 U.S.C. 141) or other review (35 U.S.C. 146) has been or can be taken or had.

Gholz addresses the same rule and concludes (at 588-89, emphasis in original):

Moreover, 37 C.F.R. § 1.661 only deals with the situation where no 35 U.S.C. 141 appeal or 35 U.S.C. 146 civil action is instituted; it does not even purport to define the termination of an interference when a 35 U.S.C. 141 appeal or a 35 U.S.C. 146 civil action is instituted.

While it is possible to read the plain language of the rule as Gholz does,⁶ an examination of the regulatory history indicates that the alternative reading an interference is terminated when the time for seeking review is past regardless of whether such review is sought is the better reading. According to the final rule notice (49 Fed. Reg. 48,416, 48,427 (12 Dec. 1984):

Section 1.661 sets forth when an interference is considered terminated after a judgment is entered in the interference. For the purpose of filing copies of settlement agreements, an interference is considered terminated when the time for all appeals has expired. Tallent v. Lemoine, 204 USPQ 1058 (Comm'r. Pat. 1979). See also Nelson v. Bowler, 212 USPQ 760 (Comm'r. Pat. 1981).

The Tallent decision held a filed settlement agreement timely because it was filed within the time permitted for filing an appeal. As Gholz observes (at 587 n.70), the Nelson case avoids the issue

⁶ Again, the thrust of the Gholz argument is that practitioners should follow the most cautious approach given the serious sanctions associated with § 135(c).

as moot since Bowler would have lost even under the construction that the interference continues during judicial review.⁷ The Office received one comment on § 1.661, which suggested adding "and the time for any such available appeal or review has expired." 49 Fed. Reg. at 48,447. This comment would have included the judicial review period within the time prior to termination of the interference. The Office rejected the suggestion, id., and pointed to the finality provision in § 135(a):

A final judgment adverse to patentee from which no appeal or other review has been or can be taken or had shall constitute cancellation of the claims involved in the patent....

Consequently, the best interpretation of § 1.661 is that an interference is terminated when the time for seeking review is over regardless of whether such review is actually sought.⁸

We are bound by § 1.661 and the construction of that the Director⁹ has given to the rule and so our inquiry is over. Nevertheless, there are many reasons to believe that Congress did not intend for § 135(c) to apply to other proceedings. First is placement: the requirement is placed in the same section as the authority for interferences in the Office (§ 135(a)) and the statute of repose from such interferences (§ 135(b)).¹⁰ It was not placed on its own as a general provision

⁷ Gholz suggests that Nelson is "citable" for the proposition that the question of termination is "open". While it may be citable for that proposition, the logical extension of the holding in Tallent and the subsequent regulatory history appear to foreclose that construction.

⁸ Note that review typically would not be sought when the settlement occurs during Board's interference proceeding, so this interpretation also has the advantage of simplicity. The question of when an interference terminates for the purposes of § 135(c) only becomes complicated if one assumes the interference includes the judicial review.

⁹ Formerly the Commissioner.

¹⁰ The last provision, § 135(d) was added later, but still only applies to interferences under the regulatory control of the Director. Since judicial review generally strips the Office of jurisdiction, § 135(d) plainly does not apply to district court proceedings, which in any case have their own arbitration practices, e.g., 28 U.S.C. 651(b).

and, indeed, is located in chapter 12 of title 35, which is a different chapter than the locations for § 146 (chapter 13) or § 291 (chapter 29). Second, its purpose: Congress and the Executive branch feared conspiracy under the cover of confidentiality afforded in interferences. Acting Secretary of Commerce, correspondence to House, published in S. Rep. 87-2169, reprinted at 1962 U.S.C.C.A.N. at 3287, 3288. When § 135(c) was enacted interferences were, and currently are, largely shielded from sight automatically by the confidentiality provisions of 35 U.S.C. 122(a), while judicial proceedings are public except to the extent that a district court judge deliberately enters a confidentiality order on the public record. Even in the unlikely event that a district court fails to act in the public interest when entering such an order, the public nature of the order and the overall proceeding will still offer ample opportunity for enforcement agencies to become involved. Hence, the need addressed in § 135(c) does not extend to judicial proceedings. Finally, jurisdiction and constitutional factors bear on whether the Board should act on settlement matters arising during judicial review.¹¹ Congress expressly gave both the Federal Circuit and district courts authority (§§ 141 and 146) to review an "interference",¹² while the Board has no comparably explicit authority to adjudicate any aspect of a judicial proceeding. Moreover, the Board is situated in the Executive branch of government; the courts, in the Judicial branch. It would be odd to construe a single proceeding as continuing across constitutionally separate, collateral branches of government. Principles of separation of powers and comity

¹¹ The jurisdictional and constitutional problems could be mooted if the Board simply lacked jurisdiction to enforce § 135(c) during interferences. That point has not been briefed, and in any case would result in the same disposition of this case, so we will not reach it now.

¹² Which suggests that they were reviewing a separate proceeding, not continuing that proceeding. Interestingly, § 291 refers to interfering patents, but not to an interference.

would prevent us from entangling the Board in judicial proceedings¹³ unless absolutely necessary.¹⁴ On balance, the most reasonable construction of § 135(c) is that it applies only to settlements filed during the administrative proceeding, not to subsequent review of that proceeding.

2. Other considerations

Johnston briefed two other questions at the administrative patent judge's request: the scope of the "writing" requirement and whether § 135(c) applies to whole acquisitions. In view of the determination in the preceding section, we need not and do not reach those questions.

ORDER

Upon consideration of Johnston motions 10, 11, and 18 and Johnston's brief for final hearing, it is

¹³ Except as an intervenor (§ 146) or as an amicus, e.g., Gerritsen v. Shiraj, 979 F.2d 1524, 1527-28, 24 USPQ2d 1912, 1915-16 (Fed. Cir. 1992).

¹⁴ The present case presents an excellent example of the dangers inherent in extending our reach into judicial proceedings. Depending on the precise timing of the agreement and the district court's order reversing the Board's decision in the 614 interference, the court may have lacked jurisdiction to enter the order. See, e.g., Gould v. Control Laser Corp., 866 F.2d 1391, 1394, 9 USPQ2d 1718, 172 (Fed. Cir. 1989) (holding review after settlement "moot for lack of adversariness"). It seems extremely unlikely that Congress intended for the Board to decide questions of Judicial branch jurisdiction even indirectly or that it would have taken such an unprecedented step without comment.

ORDERED that denials of Johnston preliminary motion 10 and of Johnston miscellaneous motions 11 and 18 are CONFIRMED.

FRED E. McKELVEY
Senior Administrative Patent Judge

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Administrative Patent Judge

JAMESON LEE
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BOARD OF PATENT
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