

# Washington Law Review

---

Volume 70  
Number 3 *Symposium on Immigration Policy*

---

7-1-1995

## *In re Epstein: A Case of Patent Hearsay*

Dennis M. de Guzman

Follow this and additional works at: <https://digitalcommons.law.uw.edu/wlr>



Part of the [Intellectual Property Law Commons](#)

---

### Recommended Citation

Dennis M. de Guzman, Notes and Comments, *In re Epstein: A Case of Patent Hearsay*, 70 Wash. L. Rev. 805 (1995).

Available at: <https://digitalcommons.law.uw.edu/wlr/vol70/iss3/9>

This Notes and Comments is brought to you for free and open access by the Law Reviews and Journals at UW Law Digital Commons. It has been accepted for inclusion in Washington Law Review by an authorized editor of UW Law Digital Commons. For more information, please contact [cnyberg@uw.edu](mailto:cnyberg@uw.edu).

## ***IN RE EPSTEIN: A CASE OF PATENT HEARSAY***

Dennis M. de Guzman

*Abstract:* In *In re Epstein*, the Federal Circuit held that the United States Patent and Trademark Office may rely on hearsay evidence to reject patent applications. This Note examines the effects of the *Epstein* decision against the backdrop of software patenting and how administrative agencies have traditionally approached the problem of evaluating hearsay. It argues that the Patent and Trademark Office should articulate standards when scrutinizing hearsay in order to provide guidance to examiners and applicants, to prevent placing an unfair burden on applicants, and to thwart the abuse of the patent system.

The software patent is perhaps the most sought-after patent today. Its value in revenue and the potential costs of patent infringement litigation can be measured in millions of dollars. Because of the dynamic field of software and its recent eligibility for patentability,<sup>1</sup> judicial decisions relating to software will have profound ramifications on the high-technology industry and the patent system. The Court of Appeals for the Federal Circuit made such a decision on August 17, 1994, when it held that the United States Patent and Trademark Office (PTO) may rely on hearsay statements when considering patent applications.<sup>2</sup> In *In re Epstein*,<sup>3</sup> the court upheld the PTO's rejection of an application for a computerized warehousing system based on hearsay statements from several sources, including an electronic database. The PTO used hearsay to support its conclusion that the applicant was not entitled to a patent because similar systems were in "public use or on sale" more than one year prior to the application filing date.<sup>4</sup>

*Epstein* raises serious questions regarding the process of obtaining patents for software and other computer-related technology. Specifically, the decision has broadened the scope of evidence that the PTO may consider and has eased the standards by which the PTO can make a prima facie showing that an applicant is not entitled to a patent. The court has placed the burden on the applicant to disprove PTO

---

1. See *infra* note 40 and accompanying text.

2. The Court of Appeals for the Federal Circuit has exclusive appellate jurisdiction over cases that arise under the patent laws. Its rulings guide the administration of the patent system in the PTO, in federal district court patent litigation, and in International Trade Commission patent proceedings. Donald S. Chisum & Michael A. Jacobs, *Understanding Intellectual Property Law* 2-17 to 2-18 (1992).

3. 32 F.3d 1559 (Fed. Cir. 1994).

4. *Id.* at 1567.

findings based on hearsay.<sup>5</sup> In contrast to other types of patent applications, the unreliability of hearsay, the rapid evolution of software technology, and the lack of informational resources may impose an unfair and difficult burden to software patent applicants. The relaxed admissibility of hearsay also may encourage abuse of the patent system as competitors try to prevent each other from obtaining lucrative software patents.

This Note argues that the PTO must scrutinize hearsay before it rejects software patent applications. Part I examines hearsay and how administrative agencies have approached its inherent problems, and the section concludes with a brief summary of the patenting process to help illustrate the relevance of evidence in the application process. Part II provides a brief overview of *Epstein*. Part III analyzes the court's reasoning in the case and suggests the broader implications of its holding. Finally, part IV proposes solutions for instances when hearsay is encountered and evaluated during an examination of a software patent application.

## I. THE RELEVANCE OF HEARSAY IN PATENT LAW

### A. *The Hearsay Rule and Administrative Agencies*

Hearsay is an oral or written statement, other than one made by the declarant while testifying at a trial or hearing, offered as evidence to prove the truth of the matter asserted.<sup>6</sup> The exclusionary rule of evidence that bars hearsay originates in the need to prevent lay jurors from considering unreliable evidence.<sup>7</sup> Also, the exclusion is necessary in instances where there is no opportunity to cross-examine the person who made the out-of-court statement.<sup>8</sup>

There are numerous exceptions to the hearsay rule.<sup>9</sup> Among them is the regularly-kept business-record exception.<sup>10</sup> Data recorded in business documents are generally hearsay, but because of the need for accuracy in the maintenance of records and the regular practice of recording data, this information is assumed to have a sufficient degree of

---

5. *Id.* at 1565-66.

6. Fed. R. Evid. 801.

7. Edward W. Cleary et al., *McCormick on Evidence* § 350, at 1005 (3d ed. 1984) [hereinafter *McCormick*].

8. *Id.* § 252, at 751.

9. Fed. R. Evid. 803.

10. Fed. R. Evid. 803(6).

trustworthiness.<sup>11</sup> Thus, courts give many assertions that are technically hearsay probative value because of their inherent reliability.

The proceedings of administrative agencies, such as the PTO,<sup>12</sup> have never been subject to the formal rules of evidence for various policy reasons. First, the rigid rules of evidence would slow down the administrative process because agencies perform significantly more adjudications than courts.<sup>13</sup> Also, hearsay rules are meant to insulate the lay juror from incompetent evidence, a concern that is less relevant where evidence is evaluated by an experienced administrative official who is an expert in a particular field and is better able to judge the quality of evidence.<sup>14</sup> While administrative agencies are excluded from the Federal Rules of Evidence,<sup>15</sup> they may provide for the use of the rules of evidence in their proceedings.<sup>16</sup>

Because the adjudicative nature of administrative proceedings closely resembles formal trials, some of the formal rules have been applied.<sup>17</sup> The Administrative Procedure Act (APA)<sup>18</sup> provides a liberal standard for the receipt of evidence in that hearsay is admissible, but the evidence must be reliable and substantial.<sup>19</sup> Some PTO rules resemble the APA

11. *McCormick*, *supra* note 7, § 306, at 872.

12. The PTO is an administrative agency under the Department of Commerce. 35 U.S.C. § 1 (1988).

13. Ernest Gellhorn, *Rules of Evidence and Official Notice in Formal Administrative Hearings*, 1971 Duke L.J. 1, 5-6; 3 Kenneth C. Davis, *Administrative Law Treatise* §§ 16.1-3 (2d ed. 1980).

14. *McCormick*, *supra* note 7, § 350, at 1005.

15. Fed. R. Evid. 1101.

16. *Compare* 37 C.F.R. § 1.671(b) (1994) (providing that the rules of evidence are to be applied in PTO interference proceedings) *with* *Opp Cotton Mills, Inc. v. Administrator, Dep't of Labor*, 312 U.S. 126, 155 (1941) (explaining that the technical rules of evidence do not apply to proceedings before federal administrative agencies in the absence of statutory requirements that such rules be observed).

17. Administrative agencies perform both informal actions and formal adversarial adjudicatory proceedings. Michael H. Graham, *Application of the Rules of Evidence in Administrative Agency Formal Adversarial Adjudications: A New Approach*, 1991 U. Ill. L. Rev. 353, 353. Generally, rules of evidence are impractical for informal actions. *Id.* The patenting process is a hybrid of both formal and informal processes. *See* discussion *infra* parts I.C. and III.A.

18. 5 U.S.C. §§ 551-559 (1988).

19. 5 U.S.C. § 556(d) (1988) provides in relevant part:

Any oral or documentary evidence may be received, but the agency as a matter of policy shall provide for the exclusion of irrelevant, immaterial, or unduly repetitious evidence. A sanction may not be imposed or a rule or order issued except on consideration of the whole record or those parts thereof cited by a party and supported by and in accordance with the reliable, probative, and substantial evidence.

*See also* 5 U.S.C. § 706(2)(E) (1988) (allowing courts to set aside agency findings unsupported by substantial evidence). The Court of Appeals for the Federal Circuit uses the standard of "clearly

standard by requiring examiners to evaluate the credibility and probative value of evidence when determining patenting requirements.<sup>20</sup>

A common guide agencies use to evaluate hearsay is that mere rumor will not support a finding, but hearsay may suffice if more evidence is not conveniently available and if, in the end, the finding is supported by the kind of evidence that responsible people generally rely upon in the conduct of their affairs.<sup>21</sup> Courts have supported this proposition under the "substantial evidence" rule, a measure of the quantity of overall evidence to support an administrative finding.<sup>22</sup> Under this test, the agency views the record as a whole, accounting for factors such as the hearsay's reliability, the availability of other evidence, the presence of corroborating evidence, and the need for administrative economy.<sup>23</sup>

### B. Patentability Requirements

United States patent law requires that four conditions be met before an invention receives a patent. The invention must be patentable subject matter,<sup>24</sup> useful,<sup>25</sup> novel,<sup>26</sup> and non-obvious.<sup>27</sup> Furthermore, the specifications in the patent application must contain information about

erroneous," under which PTO findings are set aside if the court is left with a definite and firm conviction that a mistake has been made. *See In re Caveney*, 761 F.2d 671, 674 (Fed. Cir. 1985); *SSIH v. United States Int'l Trade Comm'n*, 718 F.2d 365, 381 (Fed. Cir. 1933) (Nies, J., additional comments).

20. *See* U.S. Patent & Trademark Office, *Manual of Patent Examining Procedure* § 2123 (5th ed. rev. 1993) [hereinafter *MPEP*]; *see also* 37 C.F.R. § 10.150 (1994) (requiring the exclusion of "irrelevant, immaterial, or unduly repetitious evidence" in disciplinary proceedings). Many agencies that address evidentiary issues either incorporate the APA standard or paraphrase it. Richard J. Pierce, Jr., *Use of Federal Rules of Evidence in Federal Agency Adjudications*, 39 Admin. L. Rev. 1, 5 (1987).

21. *NLRB v. Remington Rand, Inc.*, 94 F.2d 862, 873 (2d Cir.), *cert. denied*, 304 U.S. 576 (1938), *rev'd on other grounds*, *Art Metals Constr. Co. v. NLRB*, 110 F.2d 148 (2d Cir. 1940).

22. *Steadman v. SEC*, 450 U.S. 91, 98-102 (1981) (holding that "substantial evidence" under § 556(d) of the APA is a minimum quantity of evidence sufficient to meet a preponderance of the evidence standard); *NLRB v. Columbian Enameling & Stamping Co.*, 306 U.S. 292, 299 (1939) (holding that substantial evidence is evidence affording a substantial basis of fact from which the fact at issue can be reasonably inferred).

23. *McCormick*, *supra* note 7, § 354, at 1016.

24. 35 U.S.C. § 101 (1988).

25. *Id.*

26. 35 U.S.C. § 102 (1988). Novelty demands that the invention was not known or used by others prior to the time of invention by the applicant. *Id.*

27. 35 U.S.C. § 103 (1988). Non-obviousness precludes the granting of a patent for an invention if the invention would have been obvious to a person having ordinary skill in the technical field of the invention. *Id.*

the invention sufficient to enable a person, skilled in the technology to which the invention pertains, to make and use the invention.<sup>28</sup>

Even if inventors meet these conditions, they may lose their rights to patents because of the “statutory bars” of 35 U.S.C. § 102(b). Specifically, this provision states:

A person shall be entitled to a patent unless . . . the invention was patented or described in a printed publication in this or a foreign country or *in public use or on sale* in this country, more than one year prior to the date of the application for patent in the United States . . . .<sup>29</sup>

One rationale underlying the “public use or on sale” provision of 35 U.S.C. § 102(b) is to prevent the granting of a patent where it would remove from the market inventions that the public believes are freely available.<sup>30</sup> Moreover, the statute precludes an inventor from patenting inventions that already may have been used by other persons. Accordingly, the public use or on-sale bar is not restricted to activities by the applicant. Public use or on-sale activity of an invention by anyone, with or without the consent or knowledge of the applicant claiming a patent for that invention, will constitute a statutory bar to the receipt of a patent.<sup>31</sup>

### C. *The Patent Application Process*

#### 1. *The PTO’s Evaluation of the Application: Prior Art Research and Databases*

The PTO makes decisions on whether to grant a patent based on the evidence that it can locate or that is presented to it during the patent application process. The application process is an *ex parte* proceeding between the applicant and the PTO examiner and is commonly referred

---

28. 35 U.S.C. § 112 (1988) (known as the enablement requirement).

29. 35 U.S.C. § 102(b) (1988) (emphasis added). The date one year prior to the filing date is also known as the “critical date,” and the one-year provision as a “grace period” for the inventor to file an application. Chisum & Jacobs, *supra* note 2, at 2-89.

30. King Instrument Corp. v. Otari Corp., 767 F.2d 853, 860 (Fed. Cir. 1985), *cert. denied*, 475 U.S. 1016 (1986).

31. Electric Storage Battery Co. v. Shimadzu, 307 U.S. 5, 19–20 (1939); Andrews v. Hovey, 124 U.S. 694, 718–19 (1888); Lorenz v. Colgate-Palmolive-Peet Co., 167 F.2d 423, 429 (3d Cir. 1948).

to as patent "prosecution."<sup>32</sup> Once an application is filed, a PTO examiner is required to review the application and research the relevant prior art<sup>33</sup> for references that may indicate obviousness, a lack of novelty, or a statutory bar.<sup>34</sup> Examiners primarily search through documentary prior art contained in the PTO libraries, such as U.S. patents and prior-art publications.<sup>35</sup> The examiner is not restricted to searching existing patent files and other prior-art publications. An examiner may also review any document that does not meet the enablement requirement of 35 U.S.C. § 112,<sup>36</sup> but nevertheless, does provide evidence of the obviousness of a software invention,<sup>37</sup> including commercial journals or computer magazines.<sup>38</sup> It is during the review of these documents that an examiner is likely to encounter written hearsay statements.

The PTO has had difficulty researching software prior art because of the lack of older software publications in its libraries. There are several reasons for this deficiency in reference material. During the 1950s and 1960s, computer vendors created and sold software as part of bundled hardware-software systems.<sup>39</sup> As such, the only available references were installed systems and a few informal publications such as conference proceedings, technical manuals, or internal company reports. Reference materials also are scarce because software patents were not issued before 1981,<sup>40</sup> resulting in a lack of incentive for programmers to publish their work. Companies instead chose to protect their software under copyright or trade secret law. Thus, although much of the existing

---

32. Chisum & Jacobs, *supra* note 2, at 2-105. See generally 3 Donald S. Chisum, *Patents: A Treatise on the Law of Patentability, Validity, and Infringement* § 11.03 (1994) (describing the prosecution of a patent application).

33. "Prior art" is a term of art in patent law and refers to the conditions that will preclude the grant of a patent for an invention. Chisum & Jacobs, *supra* note 2, at 2-83. Prior art includes an invention known or used by others, patented, or described in a publication before the applicant's invention date; inventions statutorily barred; senior-filed patents; or prior inventions by other persons. 35 U.S.C. § 102(a), (b), (c), (g) (1988).

34. See generally *MPEP*, *supra* note 20, §§ 700, 900, 2100 (describing the requirements of an examination).

35. Chisum & Jacobs, *supra* note 2, at 2-42.

36. See *supra* note 28 and accompanying text.

37. Chisum & Jacobs, *supra* note 2, at 2-37.

38. Approximately 1300 technical periodical titles are in the PTO's scientific libraries. *MPEP*, *supra* note 20, § 901.06(a).

39. Chisum & Jacobs, *supra* note 2, at 2-42.

40. See *Diamond v. Diehr*, 450 U.S. 175 (1981) (recognizing the patentability of software for the first time).

software technology has been in public use and is well-known in the field, there are few publications that document this usage.<sup>41</sup>

The PTO has recently increased its use of computerized databases<sup>42</sup> to facilitate searches for software prior art.<sup>43</sup> The PTO uses both on-line<sup>44</sup> and CD-ROM databases.<sup>45</sup> These databases provide abstracts or full-text data of existing patents and other publications.<sup>46</sup> Moreover, the PTO was given access to the Software Patent Institute Database of Software Technologies in 1994.<sup>47</sup> In addition to educational research publications, this database contains journals, computer manuals, and technical memoranda from high-technology companies.<sup>48</sup> The PTO will utilize this database information to make patentability determinations on software that may have been used previously or that is well-known in the software community.

## 2. *Rejection of Claims; Amendments or Challenges*

Upon completion of the prior-art search, the examiner makes a decision and communicates to the applicant through an "office action"

41. See generally *USPTO Hearings in January–February 1994 Open Discussion on Controversy and Solutions*, SPI Rep. (Software Patent Inst., Ann Arbor, Mich.), Summer/Fall 1994, at 8–9 (discussing the lack of documentation of software prior art and the PTO's need for such references) [hereinafter *USPTO Hearings*]. Although computer technology from the 1950s and 1960s may appear to be outdated, many of their characteristics could render features of today's software obvious or lacking in novelty. See *supra* notes 26–27; see also *infra* note 142 (describing the revocation of a multimedia patent because of previously-known technology).

42. An entire collection of documents that is placed in an electronically readable form is known as a "database." See generally Dr. J. Howard Bryant & Donald P. Stein, *Automating the U.S. Patent and Trademark Office*, 11 Am. Pat. L. Ass'n Q.J. 25 (1983) (detailing the process in which the PTO is attempting to convert its paper files into electronic form).

43. The PTO used 400 databases in 1992. 1992 Commissioner of Pat. and Trademarks Ann. Rep., at 32 [hereinafter 1992 Ann. Rep.].

44. On-line commercial databases currently used by the PTO include DIALOG, ORBIT, DOE/RECON, INPADOC, and Questel. *MPEP*, *supra* note 20, § 901.06(a).

45. See generally Linda W. Helgerson, *The U.S. Patent and Trademark Office: Preparing for the 21st Century*, 72 J. Pat. & Trademark Off. Soc'y 577 (1990) (explaining the increased usage of CD-ROM databases by the PTO). In contrast to on-line commercial database services, CD-ROM databases involve the storage of a high volume of information in a disk residing at a user's local workstation. *Id.* at 582.

46. *MPEP*, *supra* note 20, § 901.06(a).

47. *The Software Patent Institute Database*, SPI Rep. (Software Patent Inst., Ann Arbor, Mich.), Summer/Fall 1994, at 2. The Software Patent Institute is an organization founded by high-technology industries with the goal of constructing a software prior art database for use by the PTO and the public.

48. *Id.* at 2–4.



that allows or rejects the applicant's claims.<sup>49</sup> If the office action is adverse, the burden shifts to the applicant to file a response amending the patent claims or challenging the examiner's decision.<sup>50</sup> The applicant has three to six months to respond to an office action.<sup>51</sup> The examiner then re-evaluates the application, and the process is repeated until the examiner allows the claims or issues a "Final Action" rejection that satisfies the examiner's burden of persuasion that the applicant is not entitled to a patent.<sup>52</sup> The applicant may then appeal a rejection to the Board of Patent Appeals and Interferences.<sup>53</sup>

### 3. *The Duty of Candor Requirements During Patent Prosecution*

Because of the ex parte nature of patent prosecution and the difficulty of conducting fully reliable and comprehensive PTO searches, the patent rules impose a duty of full disclosure of known prior art on patent applicants throughout the prosecution and even after the granting of a patent.<sup>54</sup> Applicants must disclose information that they are aware is material to the examination and must refrain from misrepresenting facts.<sup>55</sup> A violation of this duty may result in the unenforceability of the patent during patent infringement litigation.<sup>56</sup> This rule, however, does not impose a duty on the applicant to conduct a prior-art search nor an obligation to disclose art of which the applicant should reasonably be aware.<sup>57</sup>

---

49. 37 C.F.R. § 1.106 (1994); *MPEP*, *supra* note 20, § 2124. A "claim" is a specification on an application which indicates the subject matter that applicants regard as their discovery or invention. 37 C.F.R. § 1.75(a) (1994). More than one claim may be presented in an application. 37 C.F.R. § 1.75(b) (1994).

50. 37 C.F.R. § 1.111 (1994).

51. Chisum & Jacobs, *supra* note 2, at 2-106 n.13.

52. 37 C.F.R. § 1.113 (1994). Current PTO practice is to make a second office action final. Chisum & Jacobs, *supra* note 2, at 2-107 n.21. The examiner has a burden to reject applications based upon a preponderance of the evidence. *See infra* notes 111-17 and accompanying text.

53. 37 C.F.R. § 1.191 (1994). If the Board's decision also is adverse, the applicant may appeal to the Federal Circuit or file a civil action in the District Court for the District of Columbia. 35 U.S.C. §§ 141, 145 (1988).

54. Chisum & Jacobs, *supra* note 2, at 2-42, 2-118. *See also* Stephen C. Shear & William S. Galliani, *Patent Practice: Strategies for Submitting Newly Discovered Prior Art After Allowance of an Application*, 7 Santa Clara Computer & High Tech. L.J. 1 (1991) (recommending methods for disclosing prior art after the allowance of patent claims).

55. 37 C.F.R. § 1.56 (1994).

56. Chisum & Jacobs, *supra* note 2, at 2-117, 2-285.

57. *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350, 1362 (Fed. Cir.), *cert. denied*, 469 U.S. 821 (1984).

The Federal Circuit has extensively analyzed the questions of materiality of the known prior art and the required level of culpability.<sup>58</sup> Under current rules, information is material to patentability if it establishes, by itself or in combination with other information, a prima facie case of unpatentability.<sup>59</sup> The court judges culpability based on a finding of an intent to deceive the PTO, but considers any evidence indicative of the applicant's good faith.<sup>60</sup>

## II. OVERVIEW OF *IN RE EPSTEIN*

### A. *Facts of the Case*

Morris Epstein filed an application with the PTO on March 21, 1989, for his computerized warehouse. Epstein's application involved a system that stored information on vendors' products in a central computer. Buyers could communicate with the system via remote terminals, determine what products were available, and place orders electronically.<sup>61</sup>

In the first office action, the examiner allowed all but three of Epstein's fifty-eight pending claims.<sup>62</sup> In a subsequent office action, another examiner withdrew the previous allowance and rejected all the pending claims, relying on six newly discovered prior-art software products described in various abstracts, including some retrieved from a database. Several of the abstracts were published after Epstein's filing date, but each abstract asserted that similar products were "first installed" or "released" more than one year prior to that date.<sup>63</sup> The PTO

---

58. See, e.g., *J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559 (Fed. Cir. 1984) (holding that a prior art reference is material if there is a substantial likelihood that a reasonable patent examiner would consider it important in deciding whether to issue a patent), *cert. denied*, 474 U.S. 822 (1985).

59. 37 C.F.R. § 1.56(b)(1) (1994).

60. *Kingsdown Medical Consultants Ltd. v. Hollister Inc.*, 863 F.2d 867, 876 (Fed. Cir. 1988), *cert. denied*, 490 U.S. 1067 (1989). An intent to deceive and materiality are inverse elements in that a greater showing of one requires a lesser showing of the other. *American Hoist*, 725 F.2d at 1363. See also *Hycor Corp. v. Schlueter Co.*, 740 F.2d 1529, 1540 (Fed. Cir. 1984) (holding that gross negligence is sufficient to show wrongful intent and inequitable conduct); *Kansas Jack, Inc. v. Kuhn*, 719 F.2d 1144, 1152 (Fed. Cir. 1983) (holding that wrongful intent is present when the actor knew or should have known of the materiality of the reference); *Orthopedic Equip. Co. v. All Orthopedic Appliances, Inc.*, 707 F.2d 1376, 1383 (Fed. Cir. 1983) (holding that simple negligence or error in judgment made in good faith is insufficient to constitute inequitable conduct).

61. *In re Epstein*, 32 F.3d 1559, 1562 (Fed. Cir. 1994).

62. *Id.* See *supra* note 49–52 and accompanying text.

63. The publications were:

recognized that only one of the abstracts was a prior-art publication and that the other abstracts were not prior art publications but only referenced prior-art products.<sup>64</sup> Epstein appealed to the Board of Patent Appeals and Interferences, but it sustained the rejections.<sup>65</sup> Epstein then appealed to the Federal Circuit.

Epstein's primary ground for appeal was that the PTO had not met its evidentiary burden of proving the "in public use or on sale" status of the prior art software by a preponderance of the evidence.<sup>66</sup> Specifically, he argued that the "release" and "first installed" dates asserted in the abstracts were hearsay statements and that the Board erred in relying on the dates to establish when the software was "in public use or on sale."<sup>67</sup> Epstein also argued that the Board erred in finding that the abstracts evidenced the level of skill in the art at the time the software was sold.<sup>68</sup>

### B. *The Court's Holding and Reasoning*

The court agreed that the statements in the abstracts were hearsay.<sup>69</sup> The statements were out-of-court written assertions offered by the PTO to prove the truth of the matter asserted, namely, that the software products were "in public use or on sale" more than one year before Epstein's filing date.<sup>70</sup> The court, however, applied the general rule that

- 
- 1) "CONTROL SYSTEM" software, described in an undated database printout stating a release date of January 1982.
  - 2) "SMART/SCSS" software, described in a catalog dated February 1991 stating a first installation date of January 1987.
  - 3) "Pro-Search" software, described in an undated database printout stating release dates of October 1986 for version 1.08 and October 1987 for version 1.07.
  - 4) "DIALOG" database system, described in a seminar book dated June 1988 containing DIALOG descriptions dated March 1987.
  - 5) "CONTROL SYSTEM" software, described in a catalog dated February 1991 stating a first installation date of March 1982.
  - 6) "DS2000" software, described in a catalog dated February 1991 stating a first installation date of 1977.

*Epstein*, 32 F.3d at 1562-63.

64. *Id.* at 1563. The DIALOG seminar book was a prior-art publication in that it was published before Epstein's filing date. *See supra* note 33.

65. *Epstein*, 32 F.3d at 1563.

66. *Id.*

67. *Id.* at 1565.

68. *Id.* at 1563. *See supra* note 27 and accompanying text.

69. *Epstein*, 32 F.3d at 1565.

70. *Id.*

administrative agencies, like the PTO, are not bound by the formal rules of evidence and that hearsay evidence may be relied upon to reject patent applications.<sup>71</sup> The court allowed the use of hearsay because it would not conflict with the policy of admitting only evidence subject to cross-examination.<sup>72</sup> The court reasoned that strict adherence to the hearsay rule was not appropriate because patent prosecution is a non-adversarial, ex parte proceeding and because cross-examination is unnecessary when hearsay is sufficiently reliable.<sup>73</sup> Moreover, the applicant has the opportunity to investigate the hearsay during the three- to six-month response period following an office action, to introduce rebuttal evidence, and to cross-examine the authors of the hearsay statements by bringing an action in a federal district court.<sup>74</sup>

The court also rejected Epstein's argument that the abstracts were inaccurate, untrustworthy, or exaggerated. According to the court, this would require an assumption that the software vendors who originated the abstracts were engaged in false and misleading advertising.<sup>75</sup> Because of Epstein's failure to provide evidence of such deception and because the abstracts appeared facially reliable, the court assumed their truthfulness.<sup>76</sup>

Finally, the court addressed Epstein's argument that the abstracts may have described experimental products<sup>77</sup> or that the software described in the abstracts may have been different from what was actually installed or used. The court stated that public use or sale had to be "inferred," and it was able to make these inferences because the abstracts were in publications containing sales information, listing the number of users, and indicating the installation and release dates.<sup>78</sup> Furthermore, the products were commercial in nature and had features that would not change over the life of the product.<sup>79</sup> As a result, the court concluded

---

71. *Id.*

72. *Id.* at 1565–66.

73. *Id.*

74. *Id.*

75. *Id.* at 1566.

76. *Id.*

77. Even if a product was in public use or on sale, the statutory bar does not apply if the use was primarily for a bona fide experimental purpose rather than commercial exploitation. *Tone Bros., Inc. v. Sysco Corp.*, 28 F.3d 1192, 1199–1200 (Fed. Cir. 1994), *cert. denied*, 115 S. Ct. 1356 (1995). Any sales of the product outside the grace period must be merely incidental to the primary purpose of experimentation. *Barmag Barmer Maschinenfabrik AG v. Murata Mach., Ltd.*, 731 F.2d 831, 839 (Fed. Cir. 1984). *See supra* note 29.

78. *Epstein*, 32 F.3d at 1566–67.

79. *Id.*

that the products were commercially sold and evidenced the level of skill in the art at the time of their alleged sale.<sup>80</sup>

In his concurrence, Judge Plager agreed with the policy of allowing the PTO to use its resources to identify legitimate questions on patentability and then to require the applicant to find the answers.<sup>81</sup> He argued that, once the PTO meets this burden of production, it is not unreasonable to shift the burden to the applicant who may know more about the relevant prior art than the examiner.<sup>82</sup> He warned, however, that the PTO may use its relaxed burden as a means to delay or harass applicants.<sup>83</sup>

### III. FLAWS IN THE *EPSTEIN* DECISION AND ITS IMPLICATIONS

While the court was correct in determining that administrative agencies are not bound by the rules of evidence, *Epstein* creates several negative implications and leaves many questions unanswered. Despite the inherent weaknesses of hearsay evidence, the court failed to provide guidelines for examiners or the Board of Patent Appeals and Interferences when deciding the admissibility or credibility of hearsay evidence. The court also failed to define a standard for the evaluation of the probative worth of hearsay evidence that satisfies the PTO's burden of persuasion when rejecting applications.<sup>84</sup>

*Epstein* also creates concerns regarding which party should bear the burden of investigating hearsay; invites abuse by third-party patent competitors who may submit false and misleading information after prosecution begins; opens the door to possible abuse by PTO examiners; and confuses the duty of candor requirements.

---

80. *Id.*

81. *Id.* at 1570.

82. *Id.* at 1570-71.

83. *Id.* at 1571.

84. *See supra* note 52.

## A. *The PTO's Evaluation of Hearsay*

### 1. *The Court Failed To Place Adequate Limitations on Hearsay Admissibility*

In declaring the exclusionary rules of evidence inapplicable in ex parte administrative proceedings, the court failed to mention the APA's evidentiary limitations.<sup>85</sup> The mere fact that the APA allows hearsay under certain circumstances does not mean that no restrictions are placed on administrative agencies and that evidence may be admitted regardless of its value.<sup>86</sup> In effect, the *Epstein* court has placed few restrictions on the receipt of hearsay during patent prosecution. The admission of a large volume of low-quality evidence may contribute significantly to the length and costs of an agency's adjudications.<sup>87</sup>

The court should have considered and applied the APA standards that govern the admissibility of evidence in other administrative agencies' formal adversarial adjudications.<sup>88</sup> Although any form of evidence may be received, the agency must provide for the exclusion of unreliable evidence. Several commentators suggest that exclusionary rules should be applied as administrative proceedings approach judicial trials in formality of process and substantive rights.<sup>89</sup>

The process of applying for a patent is a formal adversarial adjudication in many respects. The initial review of patent applications by an examiner, although an ex parte proceeding suggestive of an

85. See *supra* note 19 and accompanying text. The PTO applies the APA to its proceedings. See, e.g., *Animal Legal Defense Fund v. Quigg*, 932 F.2d 920 (Fed. Cir. 1991).

86. *McCormick*, *supra* note 7, § 352, at 1011. See also *Davis*, *supra* note 13, § 16.4, at 234 (noting that although administrative agencies may be free from the strict common-law rules of evidence for jury trials, it is erroneous to suppose that agencies do not observe some rules of evidence). "Any acceptable process must be fair and predictable." James L. Rose, *Hearsay in Administrative Agency Adjudications*, 6 Admin. L.J. Am. U. 459, 478 (1992). Any uncontrolled and open admission of all evidence "for whatever it is worth," regardless of its reliability, is neither fair nor predictable. *Id.*

87. *Pierce*, *supra* note 20, at 23.

88. See *supra* note 19. The APA defines adjudication as an agency process for the formulation of an order. 5 U.S.C. § 551(7) (1988). Order is defined as "the whole or a part of a final disposition . . . of an agency in a matter other than rulemaking but including licensing." 5 U.S.C. § 551(6) (1988). The PTO functions as a decision maker, in a licensing proceeding for a patent, which is essentially a revocable license to maintain a private action for infringement. R. Carl Moy, *Commentary: Authority of the Commissioner over the Board of Patent Appeals and Interferences*, 76 J. Pat. & Trademark Off. Soc'y 391, 392 (1994). In the process of conducting an ex parte examination, the Examining Corps is performing an adjudication of an initial licensing transaction. *Id.*

89. E.g., *Gellhorn*, *supra* note 13, at 16.

“informal” agency action,<sup>90</sup> involves aspects of judicial proceedings. The examiner acts like a trial judge by resolving evidentiary issues, determining prima facie cases for unpatentability, and applying established case law in the evaluation of claims.<sup>91</sup> These characteristics are particularly true in the appeals made to the Board of Patent Appeals and Interferences. The Board is a quasi-judicial adjudicatory body imbued with court-like qualities.<sup>92</sup> The Board accepts legal briefs, holds hearings, and issues written opinions.<sup>93</sup> Having many of the procedures of a formal trial, the patent application process requires, at a minimum, that the PTO apply some restrictions on the admissibility of hearsay.

In addition to the procedural similarities between patent prosecution and formal trials, there are substantive similarities. Hearsay evidence should receive close examination, and its use should be limited because substantial statutory rights, founded on the Constitution, are being determined. Applicants are seeking a patent that will grant them exclusive property rights to their inventions.<sup>94</sup> Much like real property, patents grant their owners a bundle of rights, particularly the right to exclude the rest of the world from enjoyment and dominion over their patents.<sup>95</sup> This right is sanctioned and enforced by the federal courts

---

90. See *supra* note 17 and accompanying text. In informal actions, hearsay evidence is generally acceptable for various policy reasons, including the need for expeditious, inexpensive, and efficient justice. Large numbers of cases, that seldom involve issues of credibility, are thus resolved. Gellhorn, *supra* note 13, at 6. Subjects of informal actions include tax return processing, workmen's compensation claims, and social security entitlements. *Id.*; Rose, *supra* note 86, at 460.

91. *United States v. American Bell Tel. Co.*, 128 U.S. 315, 363 (1888) (“The patent . . . is the result of a course of proceeding, quasi judicial in its character . . .”); *Butterworth v. United States ex rel. Hoe*, 112 U.S. 50, 67 (1884) (explaining that patent examiners are quasi-judicial officials); *Western Elec. Co. v. Piezo Technology, Inc.*, 860 F.2d 428, 432 (Fed. Cir. 1988) (holding that patent examiners, like judges, cannot be deposed as to their mental process); *MPEP*, *supra* note 20, §§ 2123–2125 (specifying the legal and factual issues that an examiner must resolve).

92. *In re Alappat*, 33 F.3d 1526, 1572 (Fed. Cir. 1994) (Mayer, J., dissenting). The Board presides over hearings involving an adversarial conflict between an applicant and an examiner arguing against patentability. *Id.* at 1573. See also *Commissioner Confers Title of ‘Judge’ on Patent and Trademark Board Members*, [May–Oct. 1993 Transfer Binder] 46 Pat., Trademark & Copyright J. (BNA) No. 1151, at 534 (Oct. 21, 1993) (announcing that Board members have new designations as “Administrative Patent Judges”).

93. *Alappat*, 33 F.3d at 1574 (Mayer, J., dissenting). See also 37 C.F.R. §§ 1.191–198 (1994) (regarding proceedings before the Board).

94. The Constitution gives Congress the power “To promote the Progress of . . . useful Arts, by securing for limited Times to . . . Inventors the *exclusive Right* to their . . . Discoveries.” U.S. Const. art. I, § 8, cl. 8 (emphasis added). See also 35 U.S.C. § 261 (1988) (stating that patents shall have the attributes of real property).

95. 1 Irving Kayton, *Patent Practice* 1-23 to 1-24 (PRI 1993). Patent laws give the patent holder a right to exclude all others from making, using, or selling the invention in the United States for 17 years. 35 U.S.C. § 154 (1988).

against unauthorized infringement.<sup>96</sup> Accordingly, the applicant is entitled to have these rights determined based on the consideration of reliable evidence.<sup>97</sup> The Constitution's goal of promoting the progress of science will be truly satisfied only if inventors are given the incentive to create with the knowledge that they will receive a fair adjudication of their rights.

## 2. *The Court Did Not Require the PTO To Resolve Issues of Hearsay Credibility*

For hearsay to be admitted, the proponent must show that it meets a minimum threshold of probable reliability for it to be worthy of consideration.<sup>98</sup> This does not mean that hearsay must be true. Receipt of evidence only requires that the evidence be of sufficient probable reliability so that the opponent must counter it.<sup>99</sup> The PTO recognizes this principle by requiring examiners to resolve issues of authenticity of evidence before rejecting an application under 35 U.S.C. § 102(b).<sup>100</sup>

While hearsay must be looked at more closely than legally competent evidence, the *Epstein* court gave the hearsay at issue only a minimal examination and ignored the prerequisite of establishing probable reliability prior to making a rejection that requires a response from the applicant.<sup>101</sup> Instead, the court assumed the truthfulness of the abstracts because of their facial accuracy and because of the absence of contradictory evidence to disprove their reliability.<sup>102</sup> The problem with the court's assumption of accuracy is that the dates in abstracts will always appear "facially" accurate absent glaring inconsistencies with other data in the abstract.<sup>103</sup> The main source of inaccuracy, however,

---

96. 1 Kayton, *supra* note 95, at 1-5.

97. *Amos Treat & Co. v. SEC*, 306 F.2d 260, 263 (D.C. Cir. 1962) ("[W]hen governmental agencies adjudicate or make binding determinations which directly affect the legal rights of individuals, it is imperative that those agencies use the procedures which have traditionally been associated with the judicial process.").

98. *Rose*, *supra* note 86, at 478.

99. *Id.*

100. *MPEP*, *supra* note 20, §§ 2123-2124.

101. The Federal Circuit makes a de novo review of examiner and Board actions. *In re Alappat*, 33 F.3d 1526, 1576 (Fed. Cir. 1994) (Mayer, J., dissenting).

102. *In re Epstein*, 32 F.3d 1559, 1566 (Fed. Cir. 1994).

103. See Anne P. Mintz, *Quality Control and the Zen of Database Production*, Online, Nov. 1990, at 15, 18-19 (discussing how numerical errors in databases are often subtle and only users with a high degree of familiarity with the entries can spot the errors).



occurs in the initial construction and entry of the database abstract.<sup>104</sup> Because of the human work involved, inadvertent errors in dates can occur in the original hardcopy documents, in a summarization process, or in data entry.<sup>105</sup> Frequently, the dates entered into a database come from mental recollection rather than written records.<sup>106</sup> Besides inadvertent errors, intentional inaccuracies may exist in the database. Although in most instances vendors are engaged in honest conduct, the highly competitive nature of the computer industry could lead vendors to exaggerate or even misrepresent the capabilities of their products. The computer industry provides numerous examples of failed expectations of manufacturers on the availability and capability of their products.<sup>107</sup> Thus, the chance for inaccuracy can be high. Potential loss of accuracy as information is transmitted to second- and third-hand sources is one of the primary justifications for the hearsay rule and underscores the need to ensure the substantial reliability of such information prior to giving it probative value.<sup>108</sup>

The *Epstein* court also decided that because the features described in the abstracts were not the kind that would change over the course of

---

104. *Id.* at 16–17. Also, the correction of database errors is an infrequent, lengthy, and expensive process. *Id.* at 22.

105. *Id.* at 15–17.

106. The Federal Rules of Evidence recognize an exception for recorded recollection, but to be admissible, the data must have been recorded while the matter was fresh in the memory so as to reflect the knowledge correctly. Fed. R. Evid. 803(5). Other sources of error result from the terminology in the abstracts. In the evolutionary environment of computer technology, terms become obsolete or inconsistent among the different literature. *USPTO Hearings*, *supra* note 41, at 9. Errors may occur when the terminology is translated into present language. A term may become a source of confusion if one source had used customized terms which differed from normal usage. The accuracy of terminology becomes relevant when an abstract is evaluated for novelty or non-obviousness. The features described in an abstract must contain consistent terminology during the relevant time periods when the product was supposedly in use. The primary reason for this requirement is to determine the extent to which subsequent inventions are similar. Another reason is to assist in the actual prior art searching scheme for databases, which is done through a keyword search. *See generally* Bryant & Stein, *supra* note 42 (describing database searching techniques).

107. *See, e.g., Intel's Chip Problems Not Ending; Computer Users Are Not Happy with Intel's Decision Not to Recall the Flawed Pentium Chip*, Orlando Sentinel, Dec. 19, 1994, at A6 (discussing the chances of mathematical errors caused by Intel's chip). Intel claimed that errors would occur every 27,000 years, while some in the technical community estimated that an error would occur every 24 days. *Id.*

108. *United States v. Scholle*, 553 F.2d 1109, 1125 (8th Cir.) (explaining how the complex nature of computer storage calls for a more comprehensive check for trustworthiness, including a delineation of procedures for ensuring accuracy and reliability), *cert. denied*, 434 U.S. 940 (1977). *See also* Henry H. Perritt, Jr., *Electronic Records Management and Archives*, 53 U. Pitt. L. Rev. 963, 1000 (1992) (noting that because electronic records are particularly susceptible to purposeful or accidental alterations, or incorrect processing, the efforts to authenticate them may be more difficult than when paper records are examined).

time, it was reasonable to infer that the products described were the same as those installed and used during the dates in question.<sup>109</sup> While this may have been true regarding the particular system involved in Epstein's application, the same cannot be said about software technology in general. Software technology is a rapidly-changing field, with any particular type of software quickly becoming obsolete.<sup>110</sup> Accordingly, it will be common to find instances where the products indicated during dates of first use are significantly different from the ones described in subsequently published abstracts.

The PTO should not presume the accuracy of hearsay dates indicated in abstracts, particularly those dealing with software. The *Epstein* court seems to have established such a presumption by giving hearsay statements the equivalent credibility value that is given to legally admissible evidence. In doing so, the court did not enforce its general rule that probable credibility must be established before rejecting a claim.

### 3. *The Court Did Not Clarify When the Probative Worth of Hearsay Is Sufficient To Meet the PTO's Burden of Persuasion*

Once hearsay is determined to be sufficiently credible, the examiner must evaluate the weight that it should be accorded. This analysis of probative worth judges the credibility of hearsay against conflicting evidence and its relevance against other credible evidence.<sup>111</sup> To reject a claim under 35 U.S.C. § 102(b), the PTO must meet a preponderance of the evidence standard.<sup>112</sup> There is a preponderance of evidence that 35 U.S.C. § 102(b) activity, such as public use or sale, was present if it is more likely than not that the alleged activity occurred.<sup>113</sup> The examiner initially may meet this burden by making a prima facie showing that the claimed invention was in public use or on sale more than one year before

---

109. *In re Epstein*, 32 F.3d 1559, 1567 (Fed. Cir. 1994). See also *J.A. LaPorte, Inc. v. Norfolk Dredging Co.*, 787 F.2d 1577, 1583 (Fed. Cir.) (“[O]ur precedent holds that the question is . . . whether the sale relates to a device that *embodies* the invention.”), *cert. denied*, 479 U.S. 884 (1986).

110. See generally Reed R. Heimbecher, Note, *Proposed Prior Art Legislation for Computer Program Patent Applications: Creating a Potential for Co-Existing Patents*, 13 *Hastings Comm. & Ent. L.J.* 57 (1990) (discussing the ramifications of the accelerating technology of software in comparison to the slower patenting process).

111. Rose, *supra* note 86, at 478.

112. *In re Caveney*, 761 F.2d 671, 674 (Fed. Cir. 1985); *MPEP*, *supra* note 20, § 2124.

113. See *McCormick*, *supra* note 7, § 339, at 957 (explaining that proof by a preponderance is proof that the existence of the contested fact is more probable than its non-existence).

the patent application.<sup>114</sup> The examiner may then require the applicant to challenge the findings.<sup>115</sup> Before the applicant assumes this task, however, an examiner must provide some evidence to establish the reasonableness of the rejection.<sup>116</sup> This determination of the probative worth of the evidence includes, at a minimum, an examination of the quantity and quality of the evidence as well as the circumstantial setting of the case.<sup>117</sup>

Arguably, the *Epstein* court applied these standards correctly. There was a sufficient quantum of hearsay in the form of six abstracts, and some measure of quality was present in the consistency among the abstracts.<sup>118</sup> Viewed under all the circumstances, it was probably reasonable for the PTO to shift the burden to Epstein.<sup>119</sup>

The court, however, did not provide sufficient guidance for the examiner to decide when it can justifiably shift the burden on the applicant to challenge hearsay. Questions exist as to what constitutes a reasonable finding based on hearsay. A problem would occur, for example, if only one abstract were found providing a hearsay statement on a release date. Another problem may occur if hearsay came from an abstract in an obscure publication rather than one that was well-known or inherently accurate. *Epstein* fails to address issues such as the quantum of hearsay evidence sufficient for a rejection, the need for corroboration by legally competent evidence, and the sources of hearsay that can be given more probative value. The court has given PTO examiners broad discretion in determining the existence of 35 U.S.C. § 102(b) activity.

---

114. *Caveney*, 761 F.2d at 674.

115. *Ex parte Skinner*, 2 U.S.P.Q.2d (BNA) 1788, 1789 (Bd. Pat. App. & Interferences 1986).

116. *Id.*

117. *McCormick*, *supra* note 7, § 353, at 1015-16.

118. *See supra* note 63 and accompanying text. All the abstracts described a similar system. The "CONTROL SYSTEM" software described in both the database printout and in the catalog indicated approximate release dates of January 1982 and March 1982, respectively. The release dates of the "Pro-Search" software were reasonably proximate to each other. Version 1.08 was released in October 1986, and version 1.07 was released in October 1987.

119. In patent law, the *prima facie* case is generally an elusive concept, with no clear definition. Irah H. Donner, *Obviousness Rejections: Doing the 'Tango' with the PTO*, *The Computer Law*, Aug. 1994, at 15, 16. As a result, examiners usually do not provide sufficient reasons to support their *prima facie* cases, and applicants lack the information to properly contest the rejections. *Id.*

## B. *Undue Burden on Patent Applicants*

The court justified shifting the burden to the applicant because of the numerous options available to the applicant to investigate and challenge rejections based on hearsay<sup>120</sup> and because applicants will generally know more about existing software than an examiner.<sup>121</sup> It is particularly appropriate for the examiner to shift the burden when the possible trustworthiness of the hearsay is substantial. In such a case, the distinction between the hearsay and any other legally competent evidence would be minimal. The applicant would be no worse off than if the examiner had based its findings on legally admissible evidence. However, if the PTO rejects an applicant's claims based on highly questionable hearsay, then not only has it failed to meet its burden of persuasion, but it also may have wrongfully and unduly burdened an applicant.

Besides the normal expenses of filing a patent, it may be extremely costly and inefficient for an applicant to locate the originator of hearsay to obtain an affidavit or to institute a trial proceeding to rebut the probable falsity of the hearsay.<sup>122</sup> A typical software company may be reluctant to disclose information on its activities for fear that doing so might provide competitors a trail to its research and development.<sup>123</sup> As a result, an applicant easily can be "stonewalled" when investigating a hearsay assertion. A company also could stall an applicant long enough for the time limit for an office action response to expire. Furthermore, the applicant may encounter difficulty locating the source of hearsay because the software company claiming prior use may be defunct, with its employees scattered throughout the industry.<sup>124</sup> One justification for the hearsay rule is that the evidence should be excluded because the declarant is not available for cross-examination. This justification is clearly applicable to fair patent prosecution.

---

120. See *supra* note 74 and accompanying text.

121. *In re Epstein*, 32 F.3d 1559, 1570 (Fed. Cir. 1994) (Plager, J., concurring).

122. Some of the representative costs include \$3000 to \$8000 for filing preparation, \$1000 to \$3000 for PTO processing, and \$500 to \$2000 for attorney fees to research patents. Torsten Busse, *Software Floods the Patent Office*, InfoWorld, Sept. 30, 1991, at 39. See also 37 C.F.R. §§ 1.16-.28 (1994) (regarding patent fees).

123. See *supra* notes 39-41 and accompanying text for a discussion on the reluctance of software companies to publish their work.

124. See generally Steven Burke, *Software Startups Say Big Firms Bully Them Through the Courts*, PC Week, Dec. 8, 1987, at 189 (reporting on how established software firms have used lawsuits to cause many small firms to go out of business or to lose employees).

The PTO is expected to make a thorough search of the prior art.<sup>125</sup> *Epstein* is faulty because its holding gives the PTO increased authority to impose this burden on the applicant.<sup>126</sup> In these situations, it may be appropriate to require applicants to make only a good-faith effort to locate the declarant and then to allow their claims for a patent. Instead, under *Epstein*, the applicant has been unfairly burdened with a task that the PTO should shoulder. The balancing of interests and equities strongly suggests that, in many circumstances, the PTO should bear the burden of overcoming hearsay or else grant a patent.

### C. *Potential for Abuse*

Judge Plager, in his concurrence, warned of potential abuse by the PTO as a result of relaxing its evidentiary burden. Similarly, because of the highly competitive and lucrative software industry, the *Epstein* decision also may encourage abuse of the system by third-party challengers to a patent application. Conceivably, competitors can successfully defeat a pending patent by producing a publication, subsequent to the filing date of an application, which indicates falsified "on sale" dates. Suppose, for example, that *X* files for a software patent in 1995. Its considerably larger and wealthier competitor, *Y*, learns of the pending application and produces a falsified document in 1996 indicating that software having characteristics similar to *X*'s pending patent was first used by *Y* in 1991. The document could eventually enter a database abstract or may be given directly to the PTO. The PTO would then rely on the hearsay to reject *X*'s application and impose on *X* the burden of disproving the hearsay. If *X* does not have the resources to continue patent prosecution through an investigation or a civil action to cross-examine *Y*, then the application may have to be abandoned. The *Epstein* decision's failure to provide a standard could give an unfair advantage to unscrupulous and more financially resourceful companies.<sup>127</sup>

---

125. "[T]he examiner shall make a thorough study . . . and investigation of the available prior art . . ." before formulating a possible rejection of the claimed subject matter under 35 U.S.C. § 102(b). 37 C.F.R. § 1.104(a) (1994).

126. *In re Epstein*, 32 F.3d 1559, 1571 (Fed. Cir. 1994) (Plager, J., concurring).

127. *See, e.g., Fraige v. American-National Watermattress Corp.*, 996 F.2d 295, 296 (Fed. Cir. 1993). In a similar fact pattern, the president of American-National presented false and doctored documentation as part of its defense in a patent infringement suit. *Id.* The company altered an advertisement's date to show that its product was on sale several years before the filing date of Fraige's application. *Id.*

The potential for abuse by the PTO is a recognizable danger. Certainly, there exists the possibility of examiners stalling or harassing applicants, as warned by Judge Plager.<sup>128</sup> Examiners are expected to review a certain number of applications in a given time period.<sup>129</sup> They might readily reject applications involving hearsay issues in order to focus their attention on other patents. Consequently, deserving applicants would be unfairly burdened in comparison to other applicants.

Judge Plager stated that the abuse is something that the PTO and the court will have to guard against. Unfortunately, the court may not have the resources or the opportunity to maintain the vigil. The solution lies not in relaxing the PTO's burden and monitoring for abuse, but in articulating a standard for the PTO to follow, checking only for consistency in its decisions.

#### D. *The Duty of Candor*

The PTO's ability to rely on hearsay evidence presents unanswered questions regarding the applicant's duty of candor. The first involves the issue of materiality. Generally, the PTO relies on an applicant's disclosure of public use or on-sale activity to determine if a statutory bar exists. Because of this, applicants are required to disclose information which they know will make their claims *prima facie* unpatentable.<sup>130</sup> Although applicants are not required to conduct a prior-art search, most do some research before filing applications.<sup>131</sup> With the increased availability of databases for research, an applicant will probably locate hearsay evidence of public use or sale. The *Epstein* court made hearsay

---

128. *Epstein*, 32 F.3d at 1571 (Plager, J., concurring).

129. See *PTO Wins Majority of FSIP Orders on Disputes over New Technology*, 21 Gov't Empl. Rel. Rep. (BNA) No. 1537, at 1407 (Oct. 25, 1993) (detailing a union's allegation that the PTO uses time-based production quotas which require employees to maintain extensive documentation on time worked and production achieved); Bruce Rubenstein, *Novell's Mother of All Prior Art Suits Nears Court Date: Billings Will Be Either a Billionaire or Broke*, Corp. Legal Times, July 1994, at 17 (mentioning how performance bonuses under President Ronald Reagan's era encouraged a 22-hour maximum in the examination of applications); *Wright v. Brown*, No. 92-1540, 1993 U.S. App. LEXIS 11502, at \*10-\*11 (4th Cir. May 17, 1993) (ruling against an examiner who alleged disparate treatment due to his inability to meet production quotas).

130. 37 C.F.R. § 1.56 (1994). The court has not yet evaluated a case under this new regulation. As such, the established standard of materiality may still be followed by the court in that information is material if a reasonable examiner would consider it important in determining patentability. See *supra* note 58 and accompanying text.

131. See Hilary E. Pearson, *How to Keep Your Hands Clean—The Developing U.S. Law on Inequitable Conduct in Patent Prosecution*, 3 *Intell. Prop. J.* 91, 100-03 (1987) (suggesting ways to prevent an invalidation of a patent due to "unclean hands").

statements material, but it did not indicate the level of materiality that would require disclosure. Because applicants are given no guidance on how the PTO will weigh the value of hearsay, they may have to assume that the PTO will give hearsay the same consideration as admissible evidence. As a result, the applicants may have to reduce the number and scope of their patent claims to prevent invalidation for inequitable conduct.

This issue presents a unique problem. By limiting their claims based on the discovered hearsay, applicants may erroneously limit their full rights to a patent. An applicant without the resources to challenge PTO findings based on hearsay is necessarily required to limit the full extent of his claims in the patent application. This result is unfair to an applicant when the hearsay is actually unreliable.

Another implication results from the court's failure to articulate a standard on how the PTO should evaluate hearsay. *Epstein* provides an applicant or attorney little guidance to properly judge the credibility and probative worth of hearsay.<sup>132</sup> This blurs the difference between good-faith errors of judgment and actionable gross negligence.<sup>133</sup> It is possible, for instance, that an applicant who ignores the barest of hearsay assertions may be subject to discipline.

#### IV. A SUGGESTED APPROACH FOR THE EVALUATION OF HEARSAY

##### A. *Proposed Guidelines*

Like other administrative agencies, the PTO should create evidentiary guidelines for examiners. As a general rule, the PTO should evaluate hearsay for its credibility and relative worth, considering all the circumstances pertinent to the application. The underlying premise is that the reliability of hearsay can range anywhere from the least to the most reliable.<sup>134</sup> Administrative agencies have fashioned several criteria to determine the reliability of hearsay and the weight it should be given.<sup>135</sup> These factors, generally upheld under the substantial evidence rule, involve a consideration of the whole record, coupled with a

---

132. See *Reactive Metals & Alloys Corp. v. ESM, Inc.*, 769 F.2d 1578, 1583 (Fed. Cir. 1985) (explaining that an attorney must exercise judgment when deciding what to disclose).

133. See *supra* note 60 and accompanying text.

134. Kenneth C. Davis, *Hearsay in Administrative Hearings*, 32 Geo. Wash. L. Rev. 689, 689 (1964).

135. Gellhorn, *supra* note 13, at 19-22; *McCormick*, *supra* note 7, § 353, at 1013-15.

balancing of interests.<sup>136</sup> These criteria would be particularly appropriate to the PTO as a non-exhaustive guide.

First, examiners should determine the nature of the hearsay. If the hearsay is intrinsically reliable, then it may be considered even though it may not technically fall within one of the exceptions to the hearsay rule. Under this test, the evaluation of the credibility of hearsay would take into account the source of the statements. This approach is similar to the business-records exception to the hearsay rule. Hearsay originating from commercial publications, such as sales publications or promotional brochures, should be considered less reliable due to the tendency of such publications to exaggerate the capabilities of the products described. In contrast, hearsay originating from technical works, such as operating manuals, research manuals, or internal company documents should be given greater deference because of their inherent reliability. Similarly, hearsay found in obscure publications should be given less weight than hearsay from a well-established publication. Increased scrutiny will help to curb any abuse of the patenting system by third parties who may submit falsified hearsay.

Second, examiners should determine whether hearsay can be substantiated by corroborating evidence. If the PTO can easily find evidence to corroborate the hearsay, then it will be given more credibility. Thus, if an examiner locates several other references that tend to indicate public use or sale, some of which is hearsay and some of which may be legally admissible evidence, then a sufficient quantum of proof has been reached. A single, obscure reference is insufficient evidence for rejection unless other factors are taken into account.

Third, the examiner should be required to weigh the importance of the subject matter against the costs of acquiring better evidence. Under this test, if the hearsay declarant is not readily available and the issues involved are substantial, then the hearsay by itself carries little weight.

---

136. State courts developed the legal residuum rule as a complement to the substantial evidence rule. *See, e.g.,* Carroll v. Knickerbocker Ice Co., 113 N.E. 507 (N.Y. 1916). This rule required that hearsay evidence be corroborated by some legally admissible evidence in order to support an administrative finding. Leonard M. Simon, Note, *The Weight to Be Given Hearsay Evidence by Administrative Agencies: The "Legal Residuum" Rule*, 26 Brook. L. Rev. 265, 267 (1960). In contrast to the substantial evidence rule's focus on quantity, the legal residuum rule is a measure of the quality of the evidence. *Id.* The rule was severely criticized by scholars and is no longer used in federal courts. *See* Richardson v. Perales, 402 U.S. 389, 402 (1971) (holding that uncorroborated hearsay can constitute substantial evidence if reliable); *see also* Davis, *supra* note 13, §§ 16.6–8 (discussing the legal residuum rule and analyzing case law since *Richardson v. Perales*). In this respect, corroborating evidence is used as a factor, instead of a requirement, in determining the reliability of hearsay.



For example, if the declarant is a foreign entity, then allowing hearsay may not be appropriate given the applicant's logistical difficulty of cross-examining the declarant. In fact, the unavailability of a declarant for cross-examination is one of the main justifications for the exclusionary rule.<sup>137</sup> Whether the issues involved are substantial will vary from one application to another. A complete rejection of an application based on hearsay is substantial per se and warrants scrutiny of the hearsay. In contrast, a limitation on claims may not be sufficiently substantial to bar the acceptance of the hearsay. When a limitation on claims is issued, the patent is not completely rejected but is only granted a more limited scope. However, a limitation on claims to the point where the patent is commercially worthless would be substantial.

Fourth, examiners must weigh the need for precision. In general, hearsay cannot be given probative worth where factual determinations require a high level of precision. For example, the use by other agencies of statistical evidence is generally acceptable even without precision. In patent law, however, dates are critical for determining statutory bars and are carefully detailed by applicants.<sup>138</sup> Hearsay stating vague dates in terms of years rather than specific dates of public use or sale should be given scrutiny. In contrast, hearsay, which describes features of an invention, need not be highly precise to determine novelty or non-obviousness. A general description of product features can lead a reasonable examiner to conclude that there is a lack of novelty or non-obviousness in such cases.

It may be proper, however, to require applicants to bear the burden of disproving hearsay, particularly in instances where broad claims are involved. The allowance of broad claims would give applicants greater power to enforce their patents over other potential users. Accordingly, applicants should "earn" this powerful right by bearing the burden in these situations. When agencies make decisions, they decide not only the particular cases before them but also the ramifications of their decisions on the public. Thus, examiners should consider administrative policies and the potential impact of their decisions to guide them in their evaluation of hearsay.

---

137. *McCormick*, *supra* note 7, § 252, at 751.

138. *See, e.g.*, 37 C.F.R. § 1.53(b) (1994) (specifying how filing dates are recorded); 37 C.F.R. §§ 1.6-7 (1994) (providing guidelines on determining the appropriate dates of filing when applications are received on weekends or holidays); William C. Rooklidge, *Application of the On-Sale Bar to Activities Performed Before Reduction to Practice*, 72 J. Pat. & Trademark Off. Soc'y 543, 544 (1990) (explaining that because of the strict construction of the on-sale bar, attorneys and inventors seek to precisely identify events raising an on-sale bar).

## B. *Justifications for Maintaining a High Burden on the PTO*

Scrutiny of hearsay by the PTO would probably add to the backlog of pending patents<sup>139</sup> and could result in the erroneous issuance of some patents, many of which may eventually be challenged through litigation. The PTO may not have all the necessary resources to conduct a thorough search to investigate hearsay. In situations where there are inadequate resources, the PTO may be forced to issue a patent because it does not have sufficient evidence to properly reject an application. There are, however, several policy considerations and procedural safeguards that justify maintaining the initial burden on the PTO to establish a *prima facie* showing of unpatentability.

Most significantly, the Federal Circuit recognizes that it is the PTO's burden to show why an applicant is not entitled to a patent, rather than the applicant's burden to show why he is entitled to one.<sup>140</sup> Moreover, the PTO is advocating the use of re-examination procedures where third parties may invalidate an issued patent.<sup>141</sup> Thus, if a questionable patent has been issued because of the PTO's failure to substantiate hearsay, third parties may request re-examination procedures or the PTO may re-examine the patent on its own initiative.<sup>142</sup>

Another safeguard is the existence of public-use proceedings in which pending patents may be challenged.<sup>143</sup> These proceedings will become more significant if the PTO adopts proposed rules that will make patent applications public eighteen months after filing.<sup>144</sup> As of 1992, the

139. See 1992 Ann. Rep., *supra* note 43, at 25 (reporting on 295,096 pending utility, plant, and reissue patents at the end of 1992).

140. *In re Oetiker*, 977 F.2d 1443, 1449 (Fed. Cir. 1992) (Plager, J., concurring); *In re Warner*, 379 F.2d 1011, 1016 (C.C.P.A. 1967), *cert. denied*, 389 U.S. 1057 (1968). The rule in patent law is contrary to that of other agencies. Under the APA, the proponent of an administrative order has the burden of proof. 5 U.S.C. § 556(d) (1988).

141. 1992 Ann. Rep., *supra* note 43, at 13. See also 37 C.F.R. §§ 1.510–565 (1994). A re-examination involves the re-evaluation of an issued patent for patentability requirements.

142. See, e.g., Sabra Chartrand, *At the Patent Office, a Digital Dawn*, N.Y. Times, Nov. 12, 1994, at A39. After a multimedia patent was issued to Compton's New Media, the Commissioner ordered a re-examination because of protests from the software industry. During the re-examination, PTO examiners expanded their original search and found several prior-art references. As a result, the PTO revoked the issued patent. *Id.*

143. 37 C.F.R. § 1.292 (1994). Ironically, these proceedings require the application of the Federal Rules of Evidence. 37 C.F.R. § 1.292(a) (1994). Documents that are admissible during the PTO examination would not be admissible in these proceedings. Under 37 C.F.R. § 1.291 (1994), a member of the public may also protest pending applications.

144. Notice of Public Hearing and Request for Comments on 18-Month Publication of Patent Applications, 59 Fed. Reg. 63,966 (1994). Under current law, patent applications are kept

average time to process patent applications was 19.1 months.<sup>145</sup> Any additional time that the PTO will need for hearsay investigation provides an opportunity for third parties to learn about and challenge the software patents. This procedure, as well as re-examination, will encourage third parties to voluntarily contribute information regarding a challenged patent's validity rather than "stonewalling" an inquiring applicant. Under these circumstances, there is little need to impose the investigative burden on the applicant because third parties can be expected to come forward and have a greater involvement in a patent's prosecution.

Finally, the PTO is expanding its resources and therefore may be able to accommodate its burden of proof more easily. The use of prior-art databases is increasing, and their content is becoming more comprehensive. This advancement will provide the PTO with an expeditious method to find evidence to investigate hearsay. Recently, the PTO has begun to hire examiners with computer science backgrounds, as opposed to its previous policy of hiring only engineers.<sup>146</sup> The PTO also has instituted extensive training programs for its examiners. Thus, the PTO has improved the efficiency and accuracy of its prior-art research and evaluation. Examiners will be more familiar with software and better able to combine their background with the resources of the PTO to make reasoned decisions on the credibility of hearsay. These examiners can recognize unreliable data and also identify broad patent claims which will require applicants to bear the burden of investigating hearsay.

The PTO's current lack of resources necessarily implies that a more stringent duty of disclosure be enforced. Applicants should be encouraged to disclose material hearsay evidence during the application process so as to avoid the time-consuming burden on the PTO to substantiate hearsay. The duty of disclosure should also be strictly enforced when applicants are requested to investigate hearsay. Applicants' good-faith effort to rebut hearsay should be recognized if they have difficulty locating hearsay declarants. Under such circumstances, these applicants should be granted their patents. However, a deficient effort to rebut hearsay, combined with a claim that a good-faith effort was put forth, should be grounds for discipline for

---

confidential until a patent is issued. 35 U.S.C. § 122 (1988). Pending and rejected applications are not made public. *Id.*; 37 C.F.R. § 1.14(a) (1994).

145. 1992 Ann. Rep., *supra* note 43, at 25.

146. Sabra Chartrand, *Patents*, N.Y. Times, July 4, 1994, at A36. See also 1992 Ann. Rep., *supra* note 43, at 1 (reporting that 1941 examiners are employed by the PTO).

inequitable conduct. This stringent enforcement of the duty of disclosure will ensure that only valid patents are issued.

## V. CONCLUSION

The *Epstein* decision opens the door to the receipt of low-quality evidence during the patent application process. At a minimum, the Federal Circuit should have imposed some restrictions on the admissibility of hearsay and should have provided guidance on evaluating its credibility and probative worth. Because the court has not done so, the PTO should independently take this step of imposing practical restrictions and guidelines on hearsay. By doing this, the patent system will function smoothly and uniformly. Examiners will be able to make sound decisions on patentability and on the appropriateness of requiring an applicant to rebut hearsay. This will ensure that applicants are not unfairly burdened and that abusive patent practices do not occur.

