IN THE UNITED STATES COURT OF FEDERAL CLAIMS

EVIDEO OWNERS,
MAURO DIDOMENICO
DOUGLAS BUERGER
CRAIG LINDEN
REALVIRT, LLC
PAUL BAROUS

Plaintiffs,

v.

THE UNITED STATES,

Defendant.

No. 15-413

Judge Lydia Kay Griggsby

DEFENDANT'S SUPPLEMENTAL BRIEFING IN SUPPORT OF ITS MOTION TO DISMISS FOR LACK OF SUBJECT MATTER JURISDICTION AND FAILURE TO STATE A CLAIM

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December 14, 2015

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1. Whether the Court has jurisdiction to consider plaintiffs' illegal exaction claim under the United States Court of Appeals for the Federal Circuit's decision in *Norman v. United States*, 429 F.3d 1081 (Fed. Cir. 2005) ("*Norman II*"), aff'g, 56 Fed. Cl. 255 (2003)("*Norman I*"), and its progeny; and
2. Whether the Court's Tucker Act jurisdiction with respect to the plaintiffs' illegal exaction claim is displaced by the remedies available under 35 U.S.C. § 42(d) and 37 C.F.R. § 1.26.

ARGUMENT

I. Plaintiffs Have Failed to Meet Their Burden to Establish Jurisdiction

Pending before the Court is defendant's August 14, 2015 motion to dismiss for lack of subject matter jurisdiction and failure to state a claim. On November 10, 2015, the Court asked for supplemental briefing to address two questions relating to whether the Court has jurisdiction to hear plaintiffs' claims as illegal exaction claims. As addressed more fully in defendant's motion, the United States is immune from suit unless it has waived its immunity. *Ins. Co. of the West v. United States,* 243 F.3d 1367, 1372 (Fed. Cir. 2001). Sovereign immunity is a jurisdictional bar if the United States has not consented to be sued on a particular claim. *RHI Holdings, Inc. v. United States*, 142 F.3d 1459, 1461 (Fed. Cir. 1998). The plaintiffs bear the burden of demonstrating a waiver of immunity. *Booth v. United States*, 990 F.2d 617, 619 (Fed. Cir. 1993). Plaintiffs have failed to do so. The illegal exaction claims recognized by the Federal Circuit do not extend far enough to provide jurisdiction to consider plaintiffs' claims here.

A. *Norman II* and its progeny make clear that the Court lacks jurisdiction

Plaintiffs make two requests in their first amended complaint: (1) a return of their official fees paid to the United States Patent and Trademark Office after the applications had allegedly been designated under or associated with the SAWS program, and (2) a payment of their reasonable attorneys' fees paid after the applications had allegedly been designated under or associated with the SAWS program. First Amended Complaint, Docket No. 10 ("Compl."), ¶ 74. These allegations do not meet the requirements for an illegal exaction claim.

1. *Norman II* has no bearing on plaintiffs' claims for attorneys' fees

As an initial matter, *Norman II* has no bearing on plaintiffs' claim for attorneys' fees. Because the attorneys' fees were not paid to the government or to meet the obligations of the government, Plaintiffs' claim for attorneys' fees paid during prosecution of the patent applications cannot be pursued under an exaction theory. To be sure, exaction claims can extend beyond payments made directly to the Government; indeed, exaction claims can be based on payments made to others at the direction of the government to meet a governmental obligation. *Aerolineas Argentinas v. United States*, 77 F.3d 1564, 1573-74 (Fed. Cir. 1996). But plaintiffs provide no explanation how payments made to prosecution counsel for the benefit of the plaintiffs were at the direction of the government to meet a governmental obligation—i.e., paying for an expense the government otherwise would have to bear. *Id.* Plaintiffs have not, and cannot, identify anything that creates an obligation for the government to pay plaintiffs' prosecution counsel for services rendered to plaintiffs. As a result, plaintiffs cannot seek their attorneys' fees under an illegal exaction theory.

2. Plaintiffs' claims for official fees fail to meet the requirements of *Norman II*

Norman II imposes two requirements that bar plaintiffs from pursuing their claims for official fees under an illegal exaction theory. First, *Norman II* limits the types of statutes and regulations on which illegal exaction claims may be based, requiring that "[t]o invoke Tucker Act jurisdiction over an illegal exaction claim, a claimant must demonstrate that the statute or provision causing the exaction itself provides, either expressly or by 'necessary implication,' that 'the remedy for its violation entails a return of money unlawfully exacted.'" *Norman II*, 429 F.3d at 1095 (quoting *Cyprus Amax Coal Co. v. United States*, 205 F.3d 1369, 1373 (Fed. Cir. 2000)). Second, *Norman II* imposes a direct causation requirement, requiring that the misapplication must "directly" result in an exaction. *Id.* at 1096 ("'misapplication of public law 102-104 did not directly result in an exaction . . . so as to satisfy the jurisdictional prerequisite for maintaining an illegal exaction claim' under the Tucker Act.") (alteration in original) (quoting *Norman I*, 56 Fed.Cl. at 266). Here, the statutory and regulatory provisions that were allegedly violated by the United States Patent and Trademark Office ("USPTO") do not provide expressly, or by necessary implication, that their violation entails a return of money. Moreover, there is no basis to conclude that the USPTO's alleged misapplication ***directly*** resulted in an exaction.

Plaintiffs have alleged that by failing to disclose whether their applications were subject to SAWS review, the USPTO failed to comply with 35 U.S.C. § 132(a) and 37 C.F.R. § 1.104(a)(2).[1] *See, e.g.*, Compl. ¶¶ 63-64, 74. Thus, the question that must be

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[1] Although the first amended complaint references 37 C.F.R. § 1.17 and seeks a return of fees paid thereunder, there are no allegations that the USPTO failed to comply

answered is whether 35 U.S.C. § 132(a) and 37 C.F.R. § 1.104(a)(2), either expressly, or by necessary implication, provide that the remedy for violation entails a return of money unlawfully exacted. The answer is no.

35 U.S.C. § 132(a) does not address the calculation of fees or fee refunds. Rather, the statutory provision sets the standard for burden shifting during the USPTO's examination of patent applications. In practice, section 132(a) specifies what must be disclosed by the USPTO to support a *prima facie* case for a rejection or objection, thereby shifting the burden of production to the applicant to rebut the *prima facie* case. *In re Jung*, 637 F.3d 1356, 1362 (Fed. Cir. 2011) ("In other words, the PTO carries its procedural burden of establishing a prima facie case when its rejection satisfies 35 U.S.C. § 132, in 'notify[ing] the applicant . . . [by] stating the reasons for [its] rejection, or objection or requirement, together with such information and references as may be useful in judging of the propriety of continuing the prosecution of [the] application.' 35 U.S.C. § 132."). To meet this *prima facie* case and shift the burden of production, 35 U.S.C. § 132(a) requires the USPTO to notify patent applicants of the reasons for the rejection, objection, or requirement, and to provide "information and references as may be useful in judging of the propriety of continuing the prosecution of his application." 35 U.S.C. § 132(a). In short, the purpose of Section 132(a) is not setting or authorizing fees; rather, its purpose is setting the standard that must be met before the burden of production can be shifted to the applicant. *Compare* 35 U.S.C. § 132(b) (authorizing establishment of

with 37 C.F.R. § 1.17 itself. Indeed, plaintiffs appear to admit that the fees were paid in compliance with law. Compl. ¶ 38 (fees were paid "under 37 C.F.R. § 1.17, according to the USPTO official fee schedule."). Rather than contesting the calculation of the fees, the allegations focus on the USPTO's purported failure to comply with 35 U.S.C. § 132(a) and 37 C.F.R. § 1.104(a)(2).

regulations and fees for continued examination, providing that "[t]he Director shall prescribe regulations to provide for the continued examination of applications for patent at the request of the applicant. The Director may establish appropriate fees for such continued examination and shall provide a 50 percent reduction in such fees for small entities that qualify for reduced fees under section 41(h)(1)."); *see also In re Antor Media Corp.*, 689 F.3d 1282, 1289 (Fed. Cir. 2012)("As long as an examiner makes a proper prima facie case of anticipation by giving adequate notice under § 132, the burden shifts to the applicant to submit rebuttal evidence of nonenablement."); *see also Chester v. Miller*, 906 F.2d 1574, 1577-78 (Fed. Cir. 1990) ("We are unpersuaded that section 132 supports the proposition suggested by Chester—that the PTO is required to state specifically that a prior art reference describes and enables claims rejected as anticipated. That section does not mandate that in order to establish prima facie anticipation, the PTO must explicitly preempt every possible response to a section 102 rejection. Section 132 merely ensures that an applicant 'at least be informed of the broad statutory basis for [the rejection of] his claims, so that he may determine what the issues are on which he can or should produce evidence.'") (quoting *In re Hughes*, 345 F.2d 184, 185 (C.C.P.A. 1965)) (alteration in original).

Plaintiffs have not, and cannot, identify anything in this statutory provision that suggests the remedy for a violation is a return of any official fees paid. 35 U.S.C. § 132(a) does not specify what fees must be paid during prosecution; authority to set fees is provided in 35 U.S.C. § 132(b) and fees are set and paid pursuant to another statutory provision—35 U.S.C. § 41—and a corresponding regulation—37 C.F.R. § 1.17. Thus, the only reasonable inference is that failure to comply with 35 U.S.C. § 132(a) results in the burden not being properly shifted to the applicant, nothing more. This is the context in which the provisions of Section 132(a) have been raised previously. *See, e.g., In re Nygard*, 52 C.C.P.A. 1032, 1039 (C.C.P.A. 1965) ("These, however, are new arguments never used in making the rejection and if they are to be relied on we think they should be made in the Patent Office where appellant has the opportunity to answer them as contemplated by the statute, 35 USC 132, and the rules, Rule 104(b), and not presented to him for the first time in this court. This court is a court of review and reasons for rejection not made in the Patent Office are not properly before us."). 35 U.S.C. § 132(a) certainly does not lead to the inescapable or "***ineluctable*** conclusion that the clause provides a cause of action with a monetary remedy," as required to establish jurisdiction. *Norman II*, 429 F.3d at 1096 (quoting in parenthetical *Cyprus Amax. Coal Co. v. United States*, 205 F.3d 1369, 1373 (Fed. Cir. 2000)) (emphasis added).

37 C.F.R. § 1.104(a)(2) largely mirrors 35 U.S.C. § 132(a). It requires that the patent applicant be notified of the examiner's actions, including "[t]he reasons for any adverse action or any objection or requirement . . . and such information or references . . . as may be useful in aiding the applicant . . . to judge the propriety of continuing the prosecution." 37 C.F.R. § 1.104(a)(2). As with 35 U.S.C. § 132(a), nothing in 37 C.F.R. § 1.104(a)(2) provides that the remedy for a violation entails a return of official fees. Rather, the only reasonable inference is that failure to comply with 37 C.F.R. § 1.104(a)(2) results in the burden of production not being properly shifted to the applicant, nothing more. Because 35 U.S.C. § 132(a) and 37 C.F.R. § 1.104(a)(2) do not expressly, or by necessary implication, provide that the remedy for their violation entails a return of money unlawfully exacted, the Court lacks jurisdiction and its inquiry can end.

Even if the first requirement of *Norman II* were met, the second requirement—that the misapplication of the statute must "directly" result in an exaction—is not met. In the complaint, plaintiffs aver that if the USPTO had complied with 35 U.S.C. § 132(a) and 37 C.F.R. § 1.104(a)(2), plaintiffs would have known of the alleged designation of the applications for SAWS review, and such knowing "might have been useful in aiding the applicant to judge the propriety of continuing the prosecution of the application."[2] Compl. ¶¶ 27, 63. Thus, plaintiffs appear to contend that if they had known the applications were subject to SAWS review, they "might" have abandoned the applications before they paid any additional official fees. Notably, plaintiffs have not alleged that the statutory and regulatory provisions setting fees were themselves misapplied, directly resulting in an exaction. Rather, plaintiffs' allegations are similar to those raised in *Norman I and II*.

In *Norman I and II*, the plaintiffs alleged that the United States violated an appropriations act when the Army Corps of Engineers used funds to complete a wetland-delineation on plaintiffs' property in 1991. *Norman II*, 429 F.3d at 1096. In 1988, the plaintiffs purchased a 470-acre parcel of land that included 17 acres of wetland pursuant to a1988 delineation, and did so in reliance on that delineation. *Id.* at 1085. In 1991, the Army Corps of Engineers revoked the 1988 delineation and carried out a second delineation, which designated an additional 70 acres of the parcel as wetlands. *Id.* Over the eight years following the second delineation, the plaintiffs acquired adjacent land (including an 1800 acre parcel) and obtained a development permit for the combined

[2] As explained in the original motion to dismiss, the notices provided in applications subject to SAWS review fully complied with 35 U.S.C. § 132(a) and 37 C.F.R. § 1.104(a)(2).

parcel, which required the plaintiffs to set aside 220.85 acres of the whole for wetland-loss mitigation. *Id.* at 1086-87.

In a lawsuit that began in 1995 and went to trial in 2003, the plaintiffs sought compensation for the 220.85-acre set-aside. *Id.* at 1086-87. The plaintiffs did not, however, allege any wrongdoing in the permitting process that required the 220.85-acre set-aside; rather, the plaintiffs alleged that the 1991 delineation designating the additional 70 acres from the original parcel resulted in the need for the 220.85-acre set-aside and was illegal. *Id.* at 1086-88. The plaintiffs argued that the 1991 delineation was illegal because it violated Public Law No. 102-104, which prohibited the expenditure of public funds for delineations. *Id.* at 1094-5. The plaintiffs did not identify any other statute or regulation which they alleged was misapplied or misconstrued. *Norman I*, 56 Fed. Cl. at 266.

The Court of Federal Claims rejected the plaintiffs' argument, ruling that:

> Public Law 102-104 was not the instrument through which plaintiffs' property was exacted, it was merely an appropriations act, and, as such, plaintiffs cannot maintain an illegal exaction claim based exclusively on the violation of this act.

Id. The Federal Circuit agreed, explaining that "we agree with the trial court that 'misapplication of Public Law No. 102-104 did not directly result in an exaction . . . so as to satisfy the jurisdictional prerequisite for maintaining an illegal exaction claim' under the Tucker Act." *Norman II*, 429 F.3d at 1096 (quoting *Norman I*, 56 Fed. Cl. at 266) (alteration in original). Thus, in *Norman I and II*, like here, the alleged statutory violation did not itself directly cause the alleged loss.

3. The progeny of *Norman II* support the conclusion that the Court lacks jurisdiction

The Court of Federal Claims found it lacked jurisdiction when faced with similar facts in one of *Norman II*'*s* progeny. In *Clark v. United States*, the plaintiff sought, *inter alia*, the return of fees related to a patent application and a copyright registration. 2014 WL 3728172, at *5 (Fed. Cl. 2014) (unpublished), *aff'd*, 2015 WL 7567508 (Fed. Cir. 2015). The plaintiff alleged that various fees he paid to the USPTO related to his patent application were an illegal exaction because the USPTO knew that his application would be denied when the fees were charged. *Id.*

The court rejected the plaintiff's argument, finding that "plaintiff's claim still must be dismissed because the alleged 'exaction' by the USPTO is based upon plaintiff's ***voluntary payment of processing fees*** for his patent application—a far cry from 'monies that the government has required to be paid contrary to law.'" *Id.* (quoting *Aerolineas Argentinas*, 77 F.3d at 1572-73) (emphasis added). The court continued, explaining that, like here, "[b]ecause the government is permitted to collect fees from those seeking to have their patent applications processed, and there has been no allegation that the government exceeded its authority in collecting plaintiff's fee, this is not an illegal exaction." *Id.* The court clarified what it meant by "the government exceed[ing] its authority in collecting plaintiff's fee" in addressing the plaintiff's related claim for copyright registration fees, explaining that "unless there has been some allegation that the government exceeded its authority in charging plaintiff this fee, ***such as by charging plaintiff a higher amount than it is permitted to charge***, the voluntary payment of a fee for copyright registration cannot constitute an illegal exaction." *Id.* (emphasis added). Thus, like the plaintiffs here, the plaintiff in *Clark v. United States* was seeking a refund of official fees charged but failed to make any allegation that the fees themselves were improper, such as by being a higher amount than permissible. Rather, like the plaintiffs here, the plaintiff in *Clark v. United States* alleged the USPTO acted improperly in a way unrelated to the calculation of fees—accepting the plaintiff's application despite the USPTO's intent never to issue the patent.

Norman II's progeny includes a number of additional cases where the court dismissed illegal exaction claims. In *Dourandish v. United States*, the Court of Federal Claims dismissed the plaintiff's exaction claims because they were not based on the alleged exercise of an "asserted statutory power," but on a contract. 120 Fed.Cl. 467, 474 (2015) ("*Dourandish I*"). On appeal, the Federal Circuit noted that the Court of Federal Claims "dismissed Mr. Dourandish's illegal exaction claim for lack of jurisdiction, because his claims derive not from an 'asserted statutory power' but from contract." *Dourandish v. United States*, 2015 WL 6143319, *5 (Fed. Cir. 2015) ("*Dourandish II*"). The Federal Circuit continued, explaining that "Mr. Dourandish did not appeal the dismissal of his Fifth Amendment due process claim. If he had, however, we would affirm. Mr. Dourandish points to no statutory basis for his illegal exaction claim." *Id.*

In *Fry v. United States*, the court found jurisdiction was lacking based on the requirement "'that the statute or provision causing the exaction itself provides, either expressly or by necessary implication, that the remedy for its violation entails a return of money unlawfully exacted.'" 72 Fed.Cl. 500, 510-11 (2006) (quoting *Norman II*, 429 F.3d at 1095). The court concluded that the "[p]laintiff's bare allegation that the Government exceeded an unspecified 'Limited Statutory Authority' does not satisfy this burden." *Id.*[3]

In contrast with the statutory and regulatory provisions raised by the plaintiffs here, in the progeny of *Norman II* where the court found it had jurisdiction to hear an illegal exaction claim, the plaintiffs alleged the United States breached statutes that were themselves monetary in nature. In *Cencast Services, L.P. v. United States*, the plaintiffs were seeking the return of money that the Internal Revenue Service had seized for failure to pay taxes, contesting that the taxes were inappropriately charged. 94 Fed.Cl. 425, 437, 451 (2010). In another case relating to taxes, *Ibrahim v. United States*, the plaintiff alleged that the United States Department of Education misapplied the statute authorizing tax refund offsets, resulting in his tax refund being reduced. 112 Fed.Cl. 333, 337 (2013). In the same vein, in a case addressing fees assessed against plaintiffs by a government agency, plaintiffs argued that the way the agency calculated the fees violated the requirements of the fee setting statute. *Northern California Power Agency v. United States*, 122 Fed.Cl. 111, 113, 116-17 (2015) ("Overpayment claims are one of the quintessential illegal exaction claims, and the Court has always had jurisdiction under the Tucker Act to hear such claims.")(citations omitted). In contrast, the statutory and regulatory provisions allegedly violated by the USPTO are unrelated to the calculation of fees, imposition of taxes, or offsetting of taxes; rather, as discussed above, the provisions

[3] In *Evans v. United States*, the court dismissed the plaintiffs' claims under RCFC 12(b)(6), finding that the plaintiffs failed to allege an illegal exaction and noting the requirement that the "government's conduct had a 'direct and substantial impact on [them].'" 74 Fed.Cl. 554, 565 (2006) ("To prevail, plaintiffs would need to demonstrate that the Secretary or the RAC had violated the Agricultural Marketing Act, the raisin marketing order, or the associated regulations and that the government's conduct had a 'direct and substantial impact on [them].'") (quoting *Casa de Cambio Comdiv S.A., de C.V. v. United States*, 291 F.3d 1356, 1364 (Fed.Cir.2002)) (alteration in original). For the reasons set forth in defendant's motion to dismiss, RCFC 12(b)(6) provides an alternative basis for dismissing plaintiffs' complaint.

specify the amount of information that must be provided to a patent applicant before the burden of production can be shifted to a patent applicant to rebut a rejection.

Thus, the requirements set forth in *Norman II*, and the progeny of that decision, make clear that the Court lacks jurisdiction over plaintiffs' claims. As explained above, neither 35 U.S.C. § 132(a), nor 37 C.F.R. § 1.104(a)(2), provide either expressly or by necessary implication that the remedy for their violation entails a return of official fees paid. Further, there is no basis to conclude that the alleged violation of 35 U.S.C. § 132(a) and 37 C.F.R. § 1.104(a)(2) directly caused an exaction. As a result, the Court lacks jurisdiction to hear plaintiffs' claims.

B. The Court Lacks Jurisdiction to Address the Mistaken Payment of Fees

Although the Court need not reach the issue to grant defendant's motion, the Court also lacks jurisdiction to address the mistaken payment of official fees. In contrast with 35 U.S.C. § 132(a) and 37 C.F.R. § 1.104(a)(2), 35 U.S.C. § 42(d) and 37 CFR § 1.26[4] actually address the refund of fees. To the extent that plaintiffs attempt to argue an illegal exaction based on violation of 35 U.S.C. § 42(d) and 37 CFR § 1.26, the Court's jurisdiction is displaced. The Federal Circuit has explained that "an illegal exaction claim may not be asserted in the Court of Federal Claims under the Tucker Act when Congress has expressly placed jurisdiction elsewhere," and that "a specific and comprehensive scheme for administrative and judicial review" preempts Tucker Act jurisdiction. *Wilson ex rel. Estate of Wilson v. United States*, 405 F.3d 1002, 1009 (Fed.

[4] Plaintiffs' complaint does not raise either 35 U.S.C. § 42(d) or 37 CFR § 1.26, and does not explicitly contend that the fees were paid by "mistake" or "in excess of that required." These provisions were addressed in the motion to dismiss to anticipate arguments Plaintiffs might raise.

Cir. 2005) (citations and quotations omitted). "[W]hen a law assertedly imposing monetary liability on the United States contains its own judicial remedies . . . the specific remedial scheme establishes the exclusive framework for [liability]," and the Tucker Act is displaced. *United States v. Bormes*, 133 S.Ct. 12, 18 (2012) (holding that FCRA's "self-executing remedial scheme supersedes the gap-filling role of the Tucker Act"). Such a statutory and regulatory scheme already exists, and the responsibility for administration lies with the USPTO.

35 U.S.C. § 42(d) provides that fees can be returned to patent applicants if "paid by mistake" or in "excess of that required." 35 U.S.C. § 42(d). 37 C.F.R. § 1.26 provides the scheme and mechanism for requesting a refund of fees, explaining that "[t]he Director may refund any fee paid by mistake or in excess of that required. A change of purpose after the payment of a fee, such as when a party desires to withdraw a patent filing for which the fee was paid, including an application, an appeal, or a request for an oral hearing, will not entitle a party to a refund of such fee." 37 C.F.R. § 1.26. Decisions on fee disputes are reviewed pursuant to the Administrative Procedure Act ("APA"). *See, e.g., Taylor v. United States Patent and Trademark Office*, 385 Fed. Appx. 980 (Fed. Cir. 2010) (unpublished); *see also In re Patent No. 7,061,177*, 2006 WL 4559506 (Com'r Pat. 2006) (USPTO decision denying a request for refund of fees paid and indicating the "decision may be regarded as a final agency action within the meaning of 5 U.S.C. § 704 for purposes of seeking judicial review."). To the extent plaintiffs attempt to argue that 35 U.S.C. § 42(d) and 37 CFR § 1.26 were violated by the USPTO, the Tucker Act is displaced by these statutory and regulatory provisions.

CONCLUSION

In light of the foregoing, and for the additional reasons raised in defendant's motion to dismiss, defendant respectfully requests that the Court dismiss the plaintiffs' First Amended Complaint under RCFC 12(b)(1) and/or RCFC 12(b)(6).

Respectfully submitted,

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December 14, 2015

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