

No. 17-1722

IN THE UNITED STATES COURT OF APPEALS
FEDERAL CIRCUIT

Gilbert P. Hyatt and
American Association for Equitable Treatment, Inc.,

Plaintiffs–Appellants,

v.

United States Patent and Trademark Office and
Michelle K. Lee, *in her official capacity as Undersecretary of Commerce
and Director of the United States Patent and Trademark Office,*

Defendants–Appellees.

On Appeal from the United States District Court
for the District of Nevada
No. 2:16-cv-01490
The Honorable Robert C. Jones

Appellants' Opening Brief

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Certificate of Interest

Counsel for Plaintiffs–Appellants Gilbert P. Hyatt and the American Association for Equitable Treatment, Inc., certifies the following:

1. The full names of every party represented by me are Gilbert P. Hyatt and the American Association for Equitable Treatment, Inc.
2. The real parties in interest are named.
3. American Association for Equitable Treatment, Inc., is not a publicly traded corporation, and no publicly held corporation owns 10 percent or more of the American Association for Equitable Treatment, Inc.
4. The names of all firms and the partners or associates that appeared for the parties now represented by me in the trial court or that are expected to appear in this Court are:

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Dated May 1, 2017

/s/ Andrew M. Grossman
Andrew M. Grossman

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Statement of Related Cases

Pursuant to Federal Circuit Rule 47.5, Appellants Gilbert P. Hyatt and the American Association for Equitable Treatment, Inc., state that:

(a) no appellate court has heard an appeal from the proceeding in this case; and

(b) there are no cases known to counsel to be pending in this or any other court that will directly affect or be directly affected by this Court's decision in this appeal.

Jurisdictional Statement

The district court had jurisdiction over this matter pursuant to 28 U.S.C. § 1331 and § 1338(a). This Court has jurisdiction over the Plaintiffs' appeal of the district court's February 17, 2017 final judgment pursuant to 28 U.S.C. § 1295(a)(1). This appeal, noticed on March 1, 2017, is timely.

Introduction

This action challenges a provision of the *Manual of Patent Examining Procedure* (“MPEP”), Section 1207.04, that the Patent and Trademark Office (“PTO”) employs to deny patent applicants their statutory right to appeal patent examiners’ final rejections of their claims to the Patent Trial and Appeal Board and thereby indefinitely delay final agency action on their applications, as well as judicial review. After repeatedly applying MPEP § 1207.04 to defeat administrative appeals filed by Plaintiff Gilbert P. Hyatt, the PTO denied Mr. Hyatt’s petition for rulemaking challenging this procedure, contending that an applicant has no right to obtain review of adverse decisions rejecting his claims for a patent.

Mr. Hyatt and the American Association for Equitable Treatment, Inc., a non-profit organization dedicated to technology policy, brought suit to challenge the PTO’s adoption of MPEP § 1207.04 and denial of Mr. Hyatt’s petition. MPEP § 1207.04, they argued below, conflicts with the Patent Act, conflicts with the PTO’s own regulations, was never lawfully promulgated, and unreasonably authorizes patent examiners to frustrate appellate review of their own decisions. Its adoption, they urged, was therefore unlawful, as was the PTO’s denial of Mr. Hyatt’s petition for rulemaking.

Rather than address the merits of these arguments, the district court granted summary judgment to the PTO, holding that it lacked subject matter jurisdiction to consider ordinary Administrative Procedure Act (“APA”) challenges to PTO’s adoption of MPEP § 1207.04 and PTO’s denial of Mr.

Hyatt's petition for rulemaking. The district court reasoned that this Court's and the Eastern District of Virginia's exclusive jurisdiction to review decisions of the Patent Trial and Appeal Board divests district courts of jurisdiction to review other actions by the PTO. But those jurisdictional provisions are expressly limited to cases challenging decisions of the Appeal Board and do not confer jurisdiction, much less exclusive jurisdiction, to review other PTO actions like the adoption of rules or denial of petitions.

The district court's decision granting summary judgment to the PTO, and denying the Plaintiffs' motion for summary judgment, should be reversed.

Statement of Issues

1. Whether the district court possessed subject matter jurisdiction over APA challenges to PTO actions adopting a rule and rejecting a petition for rulemaking.

2. Whether MPEP § 1207.04 conflicts with or exceeds the PTO's authority under the Patent Act.

3. Whether MPEP § 1207.04 conflicts with the PTO's duly promulgated Examiner's Answer Rule, 37 C.F.R. § 41.39.

4. Whether MPEP § 1207.04 is invalid because it was not subject to notice-and-comment rulemaking as required by Section 2(b)(2) of the Patent Act, 35 U.S.C. § 2(b)(2).

5. Whether PTO erred in denying Mr. Hyatt's petition for rulemaking.

Statement of the Case

A. The Patent Appeal Process

The Patent Act prescribes the process for an inventor to obtain a patent, including appeals of adverse examiner decisions to the Appeal Board. A patent examiner's second rejection of a claim—typically referred to as a “final rejection”—entitles the applicant to “appeal from the decision of the primary examiner to the Patent Trial and Appeal Board.” 35 U.S.C. § 134(a). Among the Appeal Board's “duties” is that it “shall...on written appeal of an applicant, review adverse decisions of examiners upon applications for patents pursuant to section 134(a).” 35 U.S.C. § 6(b)(1).

In most respects, the patent appeal process resembles the appeal process in federal court. The applicant initiates the appeal by filing a notice of appeal, 37 C.F.R. § 41.31(a), and then files an initial “appeal brief” in which he develops “[t]he arguments...with respect to each ground of rejection.” 37 C.F.R. § 41.37(a), (c)(1). The examiner “may, within such time as may be directed by the Director, furnish a written answer to the appeal brief,” referred to as the “examiner's answer.” 37 C.F.R. § 41.39(a). The patent applicant then files a reply brief. 37 C.F.R. § 41.41. At that point, the matter is ripe for decision by the Appeal Board. *See* 37 C.F.R. § 41.50.

Under PTO regulations, this appeal process departs from typical court procedures in two relevant respects. First, the Examiner's Answer Rule, a regulation adopted by the PTO through notice-and-comment rulemaking, permits the examiner, with the approval of the PTO Director, to “include a

new ground of rejection” in his answer brief. 37 C.F.R. § 41.39(a)(2). *See also* 76 Fed. Reg. 72,270, 72,298 (Nov. 22, 2011) (amending Rule). A new ground of rejection can include “[e]vidence not relied upon in the Office action from which the appeal is taken.” 37 C.F.R. § 41.39(a)(2).

Second, if the examiner includes a “new ground of rejection” in his answer, the applicant has the option of either “[r]equest[ing] that prosecution be reopened before the primary examiner” or maintaining the appeal “by filing a reply brief.” 37 C.F.R. § 41.39(b)(1), (2).

The appeal culminates in final agency action when the Appeal Board issues its decision. After that, “[a]n applicant who is dissatisfied with the final decision in an appeal...may appeal the Board’s decision to” this Court or the Eastern District of Virginia. 35 U.S.C. §§ 141(a), 145.

B. PTO Employs MPEP § 1207.04 To Defeat Appeals from Rejections

MPEP § 1207, titled “Examiner’s Answer,” instructs examiners on responding to an applicant’s appeal of a second rejection to the Appeal Board. Unlike the patent appeal procedures codified in the Code of Federal Regulations, MPEP § 1207.04 excuses the examiner from filing an answer brief at all. It states that, instead of filing an answer brief, the examiner may “*reopen prosecution* to enter a new ground of rejection in response to appellant’s brief.” *Id.* (emphasis added). When the examiner reopens prosecution instead of submitting an answer brief, the appeal terminates. The applicant never has the

opportunity to file a reply brief, and the review process returns to the patent examiner. *Id.*¹

Thus, under MPEP § 1207.04, an examiner may frustrate review of patent rejections and delay final agency action indefinitely by reopening prosecution after an appeal has been filed, thereby denying applicants patents to which they may be entitled or judicial review of denials of their applications.

C. PTO Denies Mr. Hyatt's Petitions Challenging the Lawfulness of MPEP § 1207.04

On July 16, 2014, Mr. Hyatt filed a “Petition for Rulemaking Pursuant to 5 U.S.C. § 553(e) or for Other Relief Pursuant to 37 C.F.R. § 1.182 To Repeal Parts of MPEP §§ 1204 and 1207” (“Petition”). Appx95–107. The Petition demanded that the PTO either promulgate a rule repealing MPEP § 1207.04 or declare that the provision is unenforceable. Appx95.

The Petition argued: (1) that MPEP § 1207.04 is a procedural rule that was not adopted through notice-and-comment rulemaking, as 35 U.S.C. § 2(b)(2)(B) requires, Appx99–101; (2) that MPEP § 1207.04 conflicts with the

¹ In March 2014, the PTO amended MPEP § 1207.04 to provide that a patent examiner may reopen prosecution based on a new ground of rejection that would be appropriate to include in the examiner’s answer brief. Appx109 (“A new ground...includes...a new ground that would be proper...as described in MPEP § 1207.03,” “New Ground of Rejection in Examiner’s Answer”). Compare MPEP § 1207.04 (ed. 8, rev. 9, Aug. 2012) with MPEP § 1207.04 (ed. 9, rev. 1, Mar. 2014). In addition, “the issue of reopening prosecution in an application on appeal has been considered” at least two other times in recent years, in 2011 and in 2012–2013. Appx93 (citing 76 Fed. Reg. at 72,287; 78 Fed. Reg. 4,212, 4,230–31 (Jan. 18, 2013)).

requirements of the Patent Act regarding appeals, Appx97–98; and (3) that MPEP § 1207.04 conflicts with the Examiner’s Answer Rule, 37 C.F.R. § 41.39, which does not permit an examiner to reopen prosecution after appeal, Appx98–99. The Petition also sought conforming changes to MPEP §§ 1204, 1207, and 1211. Appx95.

In a six-page decision received on September 9, 2014, the Chief Administrative Patent Judge (“APJ”) denied Mr. Hyatt’s petition. Appx89–94. The Chief APJ found that MPEP § 1207.04 is “not inconsistent” with governing statutory and regulatory authority and that the PTO procedural rules need not be adopted through notice-and-comment rulemaking. Appx90. The Chief APJ also argued that reopening prosecution is necessary to prevent applications from “proceed[ing] to the Board with second-best rejections.” Appx92.

Mr. Hyatt subsequently petitioned the then-Acting Director of the PTO to review the Chief APJ decision and to undertake a rulemaking pursuant to 5 U.S.C. § 553(e) to repeal MPEP § 1207.04, or to declare it invalid or unenforceable, because it was not properly promulgated and conflicts with governing statutory and regulatory authority. Appx73–88 (“Director Petition”).

On December 7, 2015, PTO Deputy Director Russell Slifer, acting on behalf of the Director, denied the Director Petition, finding that MPEP § 1207.04 does not conflict with the Patent Act or PTO regulations and that PTO procedural rules need not be adopted through notice-and-comment

rulemaking. Appx46–72. The denial concludes by stating, “No additional filings from Mr. Hyatt on this matter will be entertained.” Appx72.

D. The District Court Grants the PTO’s Motion for Summary Judgment and Denies Plaintiffs’

On June 22, 2016, Mr. Hyatt and the American Association for Equitable Treatment, of which Mr. Hyatt is a member, brought suit in the United States District Court for the District of Nevada challenging the PTO’s denial of Mr. Hyatt’s Petitions and challenging PTO’s adoption of MPEP § 1207.04 under the Administrative Procedure Act. Appx6–24. Their complaint brought five claims under the APA: (1) that MPEP § 1207.04 is invalid and unenforceable because it was not promulgated through notice-and-comment rulemaking as required by the Patent Act; (2) that MPEP § 1207.04 unlawfully conflicts with the Examiner’s Answer Rule and the Patent Act; and that the PTO unlawfully denied the Director Petition notwithstanding (3) that MPEP § 1207.04 was not properly promulgated and conflicts with (4) the Examiner’s Answer Rule and (5) the Patent Act. Appx19–23. The PTO and Plaintiffs cross-moved for summary judgment.

In a four-page decision entered on February 17, 2017, the district court (Hon. Robert C. Jones) granted the PTO’s motion for summary judgment and denied Plaintiffs’, finding that it lacked subject matter jurisdiction.² Appx1, 2–5. Plaintiffs appealed on March 1, 2017. Appx228–30.

² The district court also speculated, without deciding the issue, that Plaintiffs–Appellants’ claims were “likely precluded” by judgment in an undue-delay suit brought by Mr. Hyatt. Appx4. Not even the PTO had contended below that

Summary of the Argument

The district court's grant of summary judgment to the PTO, and denial of the Plaintiffs' motion for summary judgment, was in error. As for that court's subject matter jurisdiction, there can be no real dispute that Plaintiffs' APA claims challenging the actions of a federal agency in administering the Patent Act fall within both federal question and patent-law question jurisdiction. Contrary to the district court's reasoning, this Court's and the Eastern District of Virginia's exclusive original jurisdiction to review decisions by the Appeal Board on patent applications does not divest other federal district courts of the ability and obligation to hear claims challenging other final actions by the PTO like those at issue here. Indeed, APA challenges to PTO actions denying petitions, promulgating rules, and taking other final actions are routinely heard by federal district courts.

On the merits, MPEP § 1207.04 conflicts with the Patent Act, which does not accord patent examiners the power to avoid review of their rejection decisions. To the contrary, the Act provides that “[a]n applicant for a patent, any of whose claims has been twice rejected, may appeal from the decision of the primary examiner to the Patent Trial and Appeal Board.” 35 U.S.C. § 134(a). It further provides that the Appeal Board “shall...on written appeal of an applicant, review adverse decisions of examiners upon applications for

the judgment in that prior case precluded the Plaintiffs–Appellants' challenge to the PTO's *subsequent* denial of the Director Petition. *See* Appx72 (denying Director Petition 25 days after entry of judgment in Mr. Hyatt's undue-delay suit).

patents pursuant to section 134(a).” 35 U.S.C. § 6(b)(1). As this Court has held, those provisions give applicants a right to obtain appellate review of adverse decisions. That is their plain meaning. The PTO has identified no basis in the statute to support its contrary position underlying MPEP § 1207.04.

Moreover, the PTO’s position conflicts with the PTO’s own duly promulgated regulations. Consistent with the Act, as well as the concept of an “appeal,” the PTO’s Examiner’s Answer Rule provides that, if an examiner includes a new ground of rejection in his appeal brief, the *applicant* may elect to terminate his appeal and reopen prosecution, just as an appellant may voluntarily dismiss an appeal. But, contrary to the Examiner’s Answer Rule, MPEP § 1207.04 grants the same power to examiners, the very parties whose decisions are under review. The agency has no authority to disregard its own binding regulation.

Even assuming *arguendo* that the PTO could have adopted MPEP § 1207.04 as a binding regulation, it has failed to follow the notice-and-comment procedures that the Patent Act requires. The Act empowers the PTO to establish regulations to “govern the conduct of proceedings in the Office,” on the condition that such regulations “shall be made in accordance with section 553 of title 5,” which is Congress’s standard formula to prescribe notice-and-comment rulemaking. 35 U.S.C. § 2(b)(2). The PTO argues that this statutory mandate actually has no legal effect, but the rules of statutory interpretation do not permit an agency to disregard Congress’s judgment that the public has a right to participate in crafting its procedures. The PTO cannot

be allowed to enforce rules against applicants that it has never properly promulgated, including MPEP § 1207.04.

For all of these reasons, the PTO acted unlawfully when it denied Mr. Hyatt's petition for rulemaking. Rather than produce a reasoned justification for denying his request that it comply with the Patent Act, the Agency brushed aside the text of the statute, its procedural requirements, and even its own regulations. Being premised on errors of law, that action was arbitrary and capricious and should not be allowed to stand.

The judgment of the court below should be reversed.

Standard of Review

This Court “review[s] a district court’s grant of summary judgment according to the law of the regional circuit, here the Ninth Circuit, where summary judgment is reviewed de novo.” *Kaneka Corp. v. Xiamen Kingdomway Grp. Co.*, 790 F.3d 1298, 1303 (Fed. Cir. 2015) (citations omitted). “In the Ninth Circuit, summary judgment is appropriate when, drawing reasonable inferences in favor of the non-moving party, there is no genuine issue of material fact.” *Id.* Likewise, “[t]he existence of subject matter jurisdiction is a question of law reviewed de novo.” *Hughes v. United States*, 953 F.2d 531, 535 (9th Cir. 1992). *See also Micron Tech., Inc. v. Mosaid Techs., Inc.*, 518 F.3d 897, 900 (Fed. Cir. 2008).

When evaluating claims brought under the Administrative Procedure Act, a reviewing court must set aside any agency action that exceeds its statutory authority, or is “arbitrary, capricious, an abuse of discretion, or

otherwise not in accordance with law,” “in excess of statutory jurisdiction, authority, or limitations, or short of statutory right,” or is “without observance of procedure required by law.” 5 U.S.C. § 706(2)(A), (C), (D).

Argument

I. The District of Nevada Had Subject Matter Jurisdiction To Hear Plaintiffs’ Claims

The district court below, like all district courts, had subject matter jurisdiction to hear the Plaintiffs’ APA claims pursuant to 28 U.S.C. § 1331, which provides general federal question jurisdiction, and 28 U.S.C. § 1338(a), which provides jurisdiction over “any civil action arising under any Act of Congress relating to patents.” Nonetheless, the district court held that it lacked jurisdiction under the “*TRAC* doctrine”—which requires undue delay actions to be filed in a court having exclusive jurisdiction over the allegedly delayed action—on the basis that deciding Plaintiffs’ claims would intrude on the exclusive jurisdiction of this Court and the Eastern District of Virginia to review decisions by the Appeal Board pursuant to 35 U.S.C. §§ 144–45.³ Appx4. But those provisions do not confer jurisdiction, exclusive or otherwise, to review the final agency actions that are the subject of Plaintiffs’ claims.

³ Section 144 concerns direct appeals of decisions of the Appeal Board to this Court. The district court presumably intended to cite Section 141, which provides jurisdiction for such appeals.

A. Any District Court Would Have Subject Matter Jurisdiction Over Plaintiffs' Claims

Because the claims at issue in this case all arise under federal law and, in particular, the patent laws, any federal district court possesses subject matter jurisdiction to hear them.

28 U.S.C. § 1331 provides district courts with “original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.” An action arises under federal law “when the plaintiff’s statement of his own cause of action shows that it is based upon those laws or that Constitution.” *Louisville & Nashville R. Co. v. Mottley*, 211 U.S. 149, 152 (1908). This provision serves to “confer jurisdiction on federal courts to review agency action,” including agency action challenged under the APA. *Califano v. Sanders*, 430 U.S. 99, 105 (1977). There can be no dispute that Plaintiffs’ APA claims challenging actions taken by a federal agency arise under federal law, and they therefore fall within a district court’s Section 1331 jurisdiction.

In addition, 28 U.S.C. § 1338(a), confers, in relevant part, “original jurisdiction of any civil action arising under any Act of Congress relating to patents.” A civil action arises under the patent law where “the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law.” *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809 (1988). *See also ClearPlay, Inc. v. Abecassis*, 602 F.3d 1364, 1366 (Fed. Cir. 2010). This Court has held that a substantial question of federal patent law is presented by APA claims like Plaintiffs’ concerning the construction and application of

PTO rules and regulations. *Helfgott & Karas, P.C. v. Dickinson*, 209 F.3d 1328, 1334 (Fed. Cir. 2000).⁴ Accordingly, Plaintiffs’ claims arise under patent law, and they therefore fall within a district court’s Section 1338(a) jurisdiction.

B. The TRAC Doctrine Is Inapplicable Because Review of the Final Agency Actions at Issue Is Not Committed to Any Court’s Exclusive Jurisdiction

The *TRAC* doctrine holds that “where a statute commits review of final agency action to the court of appeals, any suit seeking relief that might affect the court’s future jurisdiction is subject to its exclusive review. *Pub. Util. Comm’r of Oregon v. Bonneville Power Admin.*, 767 F.2d 622, 626 (9th Cir. 1985) (citing *Telecommunications Research and Action Center (“TRAC”) v. FCC*, 750 F.2d 70 (D.C. Cir. 1984)). *TRAC* is a “narrow exception” to district court jurisdiction, applying only “when [1] the final agency action will be exclusively reviewable in the courts of appeals and [2 that] court is acting to protect its future jurisdiction.” *In re Nat. Res. Def. Council*, 645 F.3d 400, 405 (D.C. Cir. 2011). *See also Sierra Club v. Jackson*, 813 F. Supp. 2d 149, 162 (D.D.C. 2011). The exception does not apply here.

The final actions at issue here—PTO’s promulgation of a rule and denial of rulemaking petition—are not exclusively reviewable by this Court or the Eastern District of Virginia. Instead, 35 U.S.C. §§ 141(a)⁵ and 145⁶ confer

⁴ For the same reason, “the sole avenue of appeal for these claims is to this court.” *Helfgott & Karas*, 209 F.3d at 1334.

⁵ “An applicant who is dissatisfied with the final decision in an appeal to the Patent Trial and Appeal Board under section 134(a) may appeal the Board’s decision to the United States Court of Appeals for the Federal Circuit.”

exclusive jurisdiction only for review of *Appeal Board* decisions challenged by dissatisfied applicants. Indeed, Section 141(a) does not even permit this Court to hear APA challenges to “decisions of the Commissioner on petitions,” which must instead be filed in district court. *In re Makari*, 708 F.2d 709, 711 (Fed. Cir. 1983). *See also Helfgott & Karas, supra* (APA challenge to petition for expedited action on applicant’s demand for international preliminary examination); *Exela Pharma Scis., LLC v. Lee*, 781 F.3d 1349 (Fed. Cir. 2015) (APA challenge to PTO’s revival of an abandoned patent application). Likewise, although such APA challenges could be brought in the Eastern District of Virginia, that court would not be exercising its Section 145 jurisdiction—which is limited to review of “decision[s] of the Patent Trial and Appeal Board”—but its jurisdiction under 28 U.S.C. § 1331 or 28 U.S.C. § 1338(a), which as described above apply equally to all district courts. And neither exclusive-jurisdiction provision—Section 141 or 145—provides original jurisdiction over challenges to generally applicable agency actions of the kind that are routinely subject to APA review in district court. *See, e.g., Animal Legal Def. Fund v. Quigg*, 932 F.2d 920 (Fed. Cir. 1991) (APA challenge to PTO rule). As such, the final agency actions at issue are not committed to the exclusive jurisdiction of this Court or the Eastern District of Virginia.

⁶ “An applicant dissatisfied with the decision of the Patent Trial and Appeal Board in an appeal under section 134(a) may...have remedy by civil action against the Director in the United States District Court for the Eastern District of Virginia....”

Nor is original review in this Court or the Eastern District of Virginia necessary to protect future jurisdiction, as neither court has exclusive jurisdiction over the final actions at issue. *See Moms Against Mercury v. Food & Drug Admin.*, 483 F.3d 824, 827 (D.C. Cir. 2007) (*TRAC* does not apply “if the final agency action is not reviewable in this Court”). And the possibility that review of those actions could conceivably impact subsequent agency action on matters within this Court’s exclusive jurisdiction does not suffice to support application of *TRAC*, which “is not properly extended to cases where the basis of prospective jurisdiction is a speculative chain of events.” *Id.*

Accordingly, jurisdiction was proper in the district court.

II. MPEP § 1207.04 Unlawfully Conflicts with the Patent Act and the Examiner’s Answer Rule

The district court erred in denying the Plaintiffs’ motion for summary judgment on the merits. MPEP § 1207.04 conflicts with the Patent Act, conflicts with the PTO’s own regulations, and unreasonably authorizes patent examiners to frustrate appellate review of their own decisions.

A. The Patent Act Does Not Permit the Party Appealed Against To Defeat the Appeal

The Patent Act clearly and sensibly affords an applicant the right to appellate review of an examiner’s second rejection of his claims. Yet MPEP § 1207.04 permits examiners to defeat an appeal of their own rejections by reopening prosecution. This outcome is not only contrary to the plain meaning of the statutory text and the decisions of this Court, it is illogical—after all,

what's the point of conferring a statutory right of appeal if that appeal may be defeated by the party alleged to be in error? Congress established the right of appeal by statute to benefit applicants aggrieved by adverse examiner decisions and so did not leave it to the agency's discretion to determine whether an appeal is allowed to proceed. Because MPEP § 1207.04 contravenes that right, it is unlawful.

1. The Patent Act Prohibits Patent Examiners from Unilaterally Defeating Applicants' Appeals

Sections 6 and 134 of the Patent Act are complementary provisions, each addressing the process for appealing patent examiner rejections. Taken together they guarantee patent applicants the right to appeal patent examiner denials to the Patent Trial and Appeal Board and prohibit examiners from unilaterally terminating those appeals.

Section 134(a), for its part, addresses patent applicants. It grants applicants, “any of whose claims has been twice rejected,” the right “to appeal from the decision of the primary examiner to the Patent Trial and Appeal Board.” 35 U.S.C. § 134(a). Section 6(b), in turn, is addressed to the Appeal Board. Employing obligatory language, Section 6(b) requires that the Appeal Board “*shall*...on written appeal of an applicant, review adverse decisions of examiners upon applications for patents pursuant to section 134(a).” 35 U.S.C. § 6(b)(1) (emphasis added). The Patent Act further contemplates that such appeals will actually be heard in its provision providing that “[e]ach appeal...*shall be heard* by at least 3 members of the Patent Trial and Appeal

Board.” 35 U.S.C. § 6(c) (emphasis added). The exclusivity of the Appeal Board’s review is also reflected in the command that “[o]nly the Patent Trial and Appeal Board may grant rehearings.” *Id.*

In this way, the Act provides applicants the right to obtain appellate review of an examiner’s decision rejecting their claims. This Court and the Appeal Board’s predecessor have recognized as much. *In re Webb*, 916 F.2d 1553, 1556 (Fed. Cir. 1990) (reasoning that “an examiner’s final [i.e., second] rejection...precipitates the statutory right to appeal to the Board”); *Ex parte Lemoine*, 1994 Pat. App. LEXIS 8, *8, 46 U.S.P.Q.2d 1420, 1422–23 (B.P.A.I. Dec. 27, 1994) (holding that a second rejection of a claim for a patent gives the applicant “the right to appeal the rejections”).

This Court’s predecessor expressly recognized that the Act provides a right of review in *In re Hengehold*, 440 F.2d 1395 (C.C.P.A. 1971), which concerned whether the Appeal Board’s predecessor had jurisdiction to consider examiner dispositions other than rejections (e.g., restrictions and divisions). The court read Section 6(b)’s predecessor and Section 134 *in pari materia* to determine “what *statutory rights of review* an applicant has and thus what kind of ‘adverse decisions’ of examiners are reviewable by the board on appeal by applicants.” *Id.* at 1404 (emphasis added). It held that applicants have a “statutory right[] of review” for “the rejection of claims,” but not for other kinds of dispositions like restrictions and divisions. *Id.*

This Court was even more explicit regarding the Board’s duty to review examiner rejections in *In re Leithem*, 661 F.3d 1316, 1319 (Fed. Cir. 2011), and

In re McDaniel, 293 F.3d 1379, 1384 (Fed. Cir. 2002). In *Leithem*, it explained, “The Board’s statutory authority requires the Board to review, on appeal, adverse decisions of the examiner. 35 U.S.C. § 6(b).” 661 F.3d at 1319. On that basis, it held that “fairness dictates” that the Board afford an applicant an opportunity to respond when it relies upon a new ground of rejection. *Id.* at 1320. *McDaniel*, in turn, holds that “[t]he applicant has the right to have each of the grounds of rejection relied on by the Examiner reviewed independently by the Board under 35 U.S.C. § 6(b).” 293 F.3d at 1384. For that reason, the Court found that the Board erred when it selected as a representative claim one that had been denied on different grounds than others it purportedly represented. *Id.* PTO’s position that Section 6(b)(1) confers no right at all cannot be reconciled with the reasoning and holdings of *Hengehold*, *Leithem*, and *McDaniel*.

Two additional features of the statutory text confirm the point. The first is Congress’s use of the word “shall” in Section 6(b)(1). That provision states that the “Board shall...review adverse decisions of examiners” and so cannot be read merely to confer authority without obligation. *See, e.g., Lopez v. Davis*, 531 U.S. 230, 241 (2001) (“Congress’ use of the permissive ‘may’...contrasts with the legislators’ use of a mandatory ‘shall’ in the very same section.”); *United States ex rel. Siegel v. Thoman*, 156 U.S. 353, 359 (1895) (“In the law to be construed here it is evident that the word ‘may’ is used in special contradistinction to the word ‘shall.’”). If Congress had intended merely to authorize the Appeal Board to hear appeals, it would have used the word

“may” instead of “shall,” as it did elsewhere in Section 6 to provide permissive authority. *See* 35 U.S.C. § 6(c) (providing that the Board “may grant rehearings”), (d) (providing that the Secretary of Commerce “may” take certain action regarding judges appointed under the prior statutory regime). Those other provisions further indicate that Congress knew how to confer permissive authority on the Board when that was its intention. *See, e.g., Meghrig v. KFC Western, Inc.*, 516 U.S. 479, 485 (1996) (applying “Congress knows how to say” canon); *Dole Food Co. v. Patrickson*, 538 U.S. 468, 476 (2003) (same). It did not do so here.

The second textual feature is Congress’s use of the term “appeal” in Sections 6(b) and 134(a). That term is not a novelty, but well-established in legal practice. And among the ideas attached to that term is that, where jurisdiction properly lies, a party suffering an adverse ruling has an appeal of right that only he or the appeals court may terminate—not the party appealed against, even if that party chooses not to defend the grounds of the decision below. *See* Black’s Law Dict. (10th ed. 2014) (defining an “appeal” as “[a] proceeding undertaken to have a decision reconsidered by a higher authority; esp., the submission of a lower court’s or agency’s decision to a higher court for review and possible reversal”); Fed. R. App. P. 42 (only appellant may seek voluntary dismissal). And “where Congress borrows terms of art in which are accumulated the legal tradition and meaning of centuries of practice, it presumably knows and adopts the cluster of ideas that were attached to each borrowed word in the body of learning from which it was taken and the

meaning its use will convey to the judicial mind unless otherwise instructed.” *Morissette v. United States*, 342 U.S. 246, 263 (1952). There is no indication that Congress intended to depart from the standard practice in court proceedings that an appellant’s right of appeal cannot be cut short by the appellee’s unilateral action.

A textual feature of Section 134(a) confirms that the Act confers a right to maintain an appeal. Its provision that an applicant “may appeal from the decision of the primary examiner to the Patent Trial and Appeal Board” confers, on its face, the right to proceed with such an appeal to any applicant who chooses to file an appeal. *Compare* Fed. R. App. P. 3(a)(1) (providing that an appeal “may be taken only by filing a notice of appeal”). And that right, the provision provides, vests when “any of [the applicant’s] claims has been twice rejected”—not after a third or even subsequent rejection. *Compare Util. Air Reg. Grp. v. EPA*, 134 S. Ct. 2427, 2445–46 (2014) (agency lacks authority to depart from “unambiguous numerical thresholds” set by Congress). These features preclude the PTO’s interpretation, underlying MPEP § 1207.04, that an applicant has no right to obtain appellate review of an examiner’s adverse decision and that the examiner may defer appellate review until after the third, fourth, or even later rejection.

Finally, it should be noted that the right to maintain an appeal long predates the current Act. Concurrent with the establishment of the Patent Office and the examination procedures for patent applications under the 1836 Patent Act, Congress provided in Section 7 of the Act that the applicant “may,

on appeal, and upon request in writing, *have* the decision of a board of examiners [appeal board].” Act To Promote the Progress of Useful Arts, § 7, 5 Stat. 117, 120 (July 4, 1836) (emphasis added). Congress thus ensured that when examiner’s rejection is “unsatisfactory, the rights of the applicant *will* find *ample protection* in an appeal to a board of examiners.” S. Doc. No. 24-338 (Apr. 28, 1836) (emphasis added). The current law is materially unchanged, providing applicants that same protection as the 1836 Act.

2. MPEP § 1207.04 Is Not Entitled to *Chevron* Deference

Appellees argued below that MPEP § 1207.04 constitutes a statutory interpretation entitled to deference under *Chevron USA, Inc. v. NRDC*, 467 U.S. 837 (1984).⁷ That misconstrues the *Chevron* doctrine as it has been developed by the Supreme Court.

United States v. Mead Corp. explains that “administrative implementation of a particular statutory provision qualifies for *Chevron* deference when it appears that Congress delegated authority to the agency generally to make rules carrying the force of law, and that the agency interpretation claiming deference was promulgated in the exercise of that authority.” 533 U.S. 218, 226–27 (2001). Here, Congress delegated the PTO authority to “establish regulations” that “shall govern the conduct of proceedings in the Office,” but only when those rules are “made in accordance with section 553 of title 5,”

⁷ The PTO did not argue, in its action denying the Director Petition, that the language of any of the statutory provisions at issue is ambiguous, such that its reasonable statutory interpretation might be entitled to deference under *Chevron*.

which prescribes notice-and-comment procedures. 35 U.S.C. § 2(b)(2). *See also infra* § III.A. Because the PTO did not follow those procedures, MPEP § 1207.04 is not entitled to *Chevron* deference. *See Encino Motorcars, LLC v. Navarro*, 136 S. Ct. 2117, 2125 (2016) (“*Chevron* deference is not warranted...where the agency errs by failing to follow the correct procedures in issuing the regulation.”); *Bahr v. EPA*, 836 F.3d 1218, 1230 (9th Cir. 2016) (similar); *Edwards v. First Am. Corp.*, 798 F.3d 1172, 1179–80 (9th Cir. 2015) (no *Chevron* deference where an “agency’s interpretation of the statute...is not promulgated in the exercise of its formal rule-making authority”).

Moreover, the PTO itself did not “set out with a lawmaking pretense in mind when it undertook” to promulgate MPEP § 1207.04. *Mead, supra*, at 233. To the contrary, the MPEP’s Foreword states specifically that the “Manual does not have the force of law.” *See Christensen v. Harris County*, 529 U.S. 576, 587 (2000) (explaining that “[i]nterpretations such as those...contained in...agency manuals, and enforcement guidelines...do not warrant *Chevron*-style deference,” in part because they have not been “subject to the rigors of the Administrative Procedure Act, including public notice and comment”) (quotation marks and alteration omitted). And MPEP § 1207.04 does not even purport to interpret any statutory provision, neither quoting nor citing statutory language. For each of these reasons, it is not entitled to *Chevron* deference as an interpretation of the Act.

3. The PTO's Interpretation of the Act To Permit Examiners To Cut Short Appeals Is Unreasonable

In any event, *Chevron's* two-step framework would not save the PTO's self-serving interpretation of the Act as permitting examiners to defeat appeals by reopening prosecution. Under *Chevron's* first step, a court must determine whether Congress has "directly spoken to the precise question at issue." 467 U.S. at 842. If so, "that is the end of the matter; for the court, as well as the agency, must give effect to the unambiguously expressed intent of Congress." *Id.* at 842–43. If not, then at the second step a court must defer to the agency's interpretation if it is "reasonable." *Id.* at 844. As demonstrated above, Appellees' interpretation fails at the first step.

Nor does it satisfy the second. Even were the Court to find that the Act is ambiguous with respect to an applicant's right of appeal, it would still have to reject the PTO's interpretation denying such a right as unreasonable. What, after all, is the point of affording applicants a statutory right of review if the agency may defeat review at its own discretion? There is none. Moreover, an agency could establish an "appeals board" on its own to provide such discretionary review of initial determinations. *See Vermont Yankee Nuclear Power Corp. v. NRDC*, 435 U.S. 519, 524 (1978) ("Agencies are free to grant additional procedural rights in the exercise of their discretion."). Indeed, some agencies have done just that. *See, e.g.*, 57 Fed. Reg. 5,320 (Feb. 13, 1992) (establishing Environmental Appeals Board to hear appeals and make certain final decisions on behalf of EPA Administrator). The PTO's interpretation of

the Act as conferring on applicants only a right to file a notice of appeal—and not actually the right to maintain an appeal—must be considered “[a]gainst the backdrop of this established administrative practice.” *Michigan v. EPA*, 135 S. Ct. 2699, 2708 (2015). So considered, it is unreasonable.

Moreover, “an agency interpretation that is ‘inconsistent with the design and structure of the statute as a whole’ does not merit deference.” *Util. Air Reg. Grp. v. EPA*, 134 S. Ct. 2427, 2442 (2014) (citation and alteration omitted). *See also Nat’l R.R. Passenger Corp. v. Boston & Maine Corp.*, 503 U.S. 407, 417 (1992) (“In ascertaining whether the agency’s interpretation is a permissible construction of the language, a court must look to the structure and language of the statute as a whole.”). The Act balances thoroughness of examination with the applicant’s interest in obtaining timely and efficient review of examiner rejections by providing that an appeal may be taken after a claim has been “twice rejected.” 35 U.S.C. § 134(a). PTO’s interpretation upsets that balance, permitting an examiner to reject a claim twice, reopen examination to enter an additional rejection, and then repeat that process ad infinitum. Although Congress expected that examiners would exercise care and diligence in weeding out unmeritorious claims, the approach it took demonstrates that it did not intend to give them unlimited opportunities to do so, but *only two* before an applicant could obtain Appeal Board review.

Also relevant is the role of Board review in the overall patent application process. It is the gateway to judicial review of PTO merits determinations. *See* 35 U.S.C. § 141(a) (providing a right of appeal for an “applicant who is

dissatisfied with the final decision in an appeal to the Patent Trial and Appeal Board”); 35 U.S.C. § 145 (providing a civil action for an “applicant dissatisfied with the decision of the Patent Trial and Appeal Board”). The PTO’s statutory interpretation permits an examiner, by defeating an appeal, to deny a patent applicant final agency action that he could challenge in court. That cannot be reconciled with the “well-settled presumption favoring interpretations of statutes that allow judicial review of administrative action.” *McNary v. Haitian Refugee Ctr., Inc.*, 498 U.S. 479, 496 (1991). Only an interpretation that recognizes a right of review avoids these infirmities.

B. MPEP § 1207.04 Conflicts with the Duly Promulgated Examiner’s Answer Rule

When the PTO promulgated the Examiner’s Answer Rule through notice-and-comment procedures, it acted with procedural regularity to bind the public and the agency. Where new grounds of rejection arise on appeal, the Rule provides only that examiners may include them in their answer brief, not that they may reopen prosecution themselves. Authority to reopen prosecution is expressly vested in the applicant alone. 37 C.F.R. § 41.39(b)(1). And the Rule provides only a single course of action to examiners once an applicant has appealed a second rejection and filed an appeal brief: “furnish a written answer to the appeal brief.” 37 C.F.R. § 41.39(a). These features of the regulatory text compel the conclusion that it denies examiners the authority to reopen prosecution on their own. By purporting to provide that authority, MPEP § 1207.04 violates the “familiar rule of administrative law that an

agency must abide by its own regulations.” *Fort Stewart Sch. v. Fed. Labor Relations Auth.*, 495 U.S. 641, 654 (1990). *See also Wagner v. United States*, 365 F.3d 1358, 1361 (Fed. Cir. 2004) (“We begin with the initial premise that an agency is bound by its own regulations.”).⁸

The Examiner’s Answer Rule provides that “[t]he primary examiner may, within such time as may be directed by the Director, furnish a written answer to the appeal brief.” 37 C.F.R. § 41.39(a).⁹ The answer may “include a new ground of rejection” if the examiner “obtain[s] the approval of the Director” of the PTO. 37 C.F.R. § 41.39(a)(2). Neither the Examiner’s Answer Rule, nor any other of the Rules of Practice that the PTO has promulgated, authorize an examiner to reopen prosecution after an applicant has filed an appeal.

But the Examiner’s Answer Rule is not silent on the question of reopening prosecution. When an examiner includes a new ground for rejection in the answer, the Rule grants to *applicants*, not examiners, the right to request that the PTO reopen prosecution. 37 C.F.R. § 41.39(b)(1). *See also* MPEP

⁸ The PTO argued below that MPEP § 1207.04 “obviously does not arise out of Rule 39,” Appx167, and therefore cannot claim that it adopted MPEP § 1207.04 as an interpretation of Rule 39 entitled to deference under *Auer v. Robbins*, 519 U.S. 452, 461 (1997). In any event, “no *Auer* deference is due when the regulation at issue is unambiguous.” *Edwards v. First American Corp.*, 798 F.3d 1172, 1180 n.4 (9th Cir. 2015) (citing *Christensen v. Harris Cty.*, 529 U.S. 576, 588 (2000)).

⁹ The Rule’s use of the term “may” reflects that an examiner may always grant an application if he is convinced by the appeals brief that the application is meritorious and the prior grounds of rejection have been overcome.

§ 1207.03(b) (explaining that an applicant “cannot request to reopen prosecution pursuant to 37 CFR § 41.39(b) if the examiner’s answer does not have a rejection that is designated as a new ground of rejection.”). The Rule includes detailed procedures for an applicant to follow to reopen prosecution. 37 C.F.R. §§ 41.39(b)(1), 41.40. The Rule is clear, however, that applicants facing a new ground of rejection are not required to request that the PTO reopen prosecution; they may exercise their right to maintain the appeal “by filing a reply brief” after the examiner furnishes an answer. 37 C.F.R. § 41.39(b)(2).

In this way, the Rule precludes examiners from acting to reopen prosecution. The regulations expressly provide that authority to applicants alone, thereby denying it to examiners. *See Iselin v. United States*, 270 U.S. 245, 250–51 (1926) (where statute set out categories with “particularization and detail,” interpretation that would extend to an additional category was an impermissible “enlargement” of the statute rather than “construction” of it). Consistent with that reading, the Examiner’s Answer Rule’s authorization of only a single action by examiners—filing an answer to the applicant’s appeal brief—confirms that acting to reopen prosecution is not authorized, according to the doctrine of *expressio unius est exclusio alterius* (the inclusion of one is the exclusion of others). *See, e.g., Silvers v. Sony Pictures Entm’t, Inc.*, 402 F.3d 881, 885 (9th Cir. 2005) (en banc) (“[U]nder traditional principles of statutory interpretation, Congress’ explicit listing of who *may* sue for copyright infringement should be understood as an *exclusion of others* from suing for

infringement.”) (emphasis in original); *Cook v. Principi*, 318 F.3d 1334, 1339 (Fed. Cir. 2002) (“Applying the familiar canon of *expressio unius est exclusio alterius*, we conclude that Congress did not intend to allow exceptions to the rule of finality [precluding repetitive adjudication of benefit claims] in addition to the two that it expressly created.”). Accordingly, MPEP § 1207.04 plainly conflicts with the Examiner’s Answer Rule.

The PTO attempts to overcome this conflict by arguing that, while the two provisions “relate to reopening of prosecution, they do so for different purposes at different stages.” Appx167. MPEP § 1207.04, the PTO argues, “reflects the examiner’s discretion to reopen prosecution after considering the applicant’s appeal brief but before issuing an answer,” whereas “Rule 39 addresses the contents of that answer” without “discuss[ing] the possible examiner actions that might precede filing an examiner’s answer.” *Id.* (emphasis omitted). But the MPEP recites the Examiner’s Answer Rule as the authority for Section 1207 of the MPEP, including MPEP § 1207.04, contradicting the PTO’s claim that the Rule and the MPEP provision apply “at different stages.” *See* MPEP § 1207.

MPEP § 1207.04 also cannot be reconciled with the PTO’s regulation governing “Appeal to the Board,” 37 C.F.R. § 41.31(a)(1). That provision provides, “Every applicant, any of whose claims has been twice rejected, may appeal from the decision of the examiner to the Board by filing a notice of appeal.” *Id.* As with the statute, *see supra* § II.A, the right conferred by this regulatory provision vests by its own terms when “any of [the applicant’s]

claims has been twice rejected”—not, as MPEP § 1207.04 requires, after a third or later rejection.

The PTO also contends that examiners may take actions other than those authorized by PTO’s own rules. Appx166–67. This argument—that examiners are not bound by the PTO’s own duly-promulgated regulations—is both astounding in its scope and implications and flatly incorrect as a matter of law. *See Portland General Elec. Co. v. Bonneville Power Admin.*, 501 F.3d 1009, 1036 (9th Cir. 2007) (“It is well settled that an agency is legally bound to respect its own regulations, and commits procedural error if it fails to abide them.”) (quoting *Esch v. Yeutter*, 876 F.2d 976, 991 (D.C. Cir. 1989)); *Romero v. Dep’t of Def.*, 527 F.3d 1324, 1328 (Fed. Cir. 2008) (“[A]gencies must also follow the procedures established by their own regulations.”).

Finally, even if MPEP § 1207.04 could be superficially reconciled with the Examiner’s Answer Rule, it must nonetheless be rejected as an unreasonable interpretation of the Rule and exercise of the PTO’s authority. *See Georgia Pacific Corp. v. OSHRC*, 25 F.3d 999, 1004 (11th Cir. 1994). The Patent Act and the PTO’s regulations set strict deadlines and priorities for action on applications, so that patents are timely issued to the inventors who are entitled to them. In particular, the Examiner’s Answer Rule specifically requires the examiner to file his answer within the time directed by the Director and requires applicants to respond to a new ground of rejection raised in that answer—i.e., to decide whether to reopen prosecution or maintain the appeal—within two months. 37 C.F.R. § 41.39(b).

MPEP § 1207.04 is at odds with this approach. By the time an examiner is called on to answer an appeal, the applicant's patent application has already been rejected on two separate occasions. 35 U.S.C. § 134(a). There is no limit to the number of times the PTO may use this reopening procedure to frustrate an applicant's ability to obtain a final agency decision. And, in practice, examiners take up Section 1207.04's invitation to abuse by delaying patent applications by years. See *Immersion Corp. v. HTC Corp.*, 826 F.3d 1357, 1362 (Fed. Cir. 2016) (noting "how pervasively the Patent Act...specifies time by express reference to days, months, or years"). Statistics published by the PTO in 2010 show that prosecution is reopened after an appeal brief is filed in approximately one-third of all appeals. Appx83. Put simply, the PTO cannot reasonably interpret and apply the Act and its regulations so as to permit it to depart from its regular procedures and timetables with respect to some arbitrary class of applications so as to indefinitely delay final action on them.

III. MPEP § 1207.04 Is Invalid Because It Was Not Subject to Notice-and-Comment Rulemaking

Patent Act Section 2(b)(2) authorizes the PTO to "establish regulations" that "shall govern the conduct of proceedings in the Office" and requires that those regulations "shall be made in accordance with section 553" of the Administrative Procedure Act. 35 U.S.C. § 2(b)(2). That is the very same formulation that Congress has used throughout the U.S. Code to require agencies to comply with the notice-and-comment requirements of APA Section 553. Despite the PTO's acknowledgement that "MPEP § 1207.04 is a

rule of procedure” and therefore within the ambit of Section 2(b)(2), Appx64, the provision has never been subject to notice-and-comment rulemaking. Appx63. It is therefore invalid and unenforceable.

A. Section 2(b) Mandates Notice-and-Comment Rulemaking for Procedural Rules Like MPEP § 1207.04

The only tenable reading of Section 2(b)(2) of the Patent Act is that it mandates notice-and-comment rulemaking for procedural rules like MPEP § 1207.04. That interpretation is the only one that gives meaning and effect to the entirety of the statutory text and comports with the interpretation of similar provisions in other statutory schemes.

Section 2(b)(2) authorizes the PTO to “establish regulations” that “govern the conduct of proceedings in the Office,” provided that those “regulations...shall be made in accordance with section 553 of title 5,” which generally prescribes notice-and-comment procedures for rulemaking. *Id.* This type of cross-reference to APA § 553 is Congress’s standard way of mandating notice-and-comment rulemaking.¹⁰

¹⁰ *See, e.g.*, 21 U.S.C. § 358(c) (designation of official names for drugs and devices); 2 U.S.C. § 1383(b) (procedural rules for Office of Compliance); 42 U.S.C. § 1437d(j)(2)(A)(i) (“procedures for designating troubled public housing agencies”); 9 U.S.C. § 306(b) (“rules of procedure of the Inter-American Commercial Arbitration Commission”); 12 U.S.C. § 1735f-17(a)(2) (procedures by which a person may ask agency to determine whether a mortgagee is in compliance with legal requirements); 39 U.S.C. § 504(g)(3)(A) (“a procedure for according appropriate confidentiality to information identified by the Postal Service”); 42 U.S.C. § 421(k) (standards for “determining whether individuals are under disabilities” and therefore eligible for benefits). Under the PTO’s interpretive approach, all of these provisions relating to agency management or benefits—and these are just a few of the

The PTO maintains that this provision does not compel it to follow notice-and-comment procedures for procedural rules like MPEP § 1207.04 because APA § 553 exempts “rules of agency organization, procedure, or practice”—i.e., procedural rules—from its notice-and-comment requirements. 5 U.S.C. § 553(b). But the PTO’s proffered interpretation of Section 2(b)(2) as not requiring notice-and-comment rulemaking must be rejected under the “settled rule of statutory interpretation that a statute is to be construed in a way which gives meaning and effect to all of its parts.” *Saunders v. Sec’y of Dep’t of Health & Human Servs.*, 25 F.3d 1031, 1035 (Fed. Cir. 1994). *See also Astoria Fed. Sav. & Loan Ass’n v. Solimino*, 501 U.S. 104, 112 (1991). The issuance of procedural rules is the full scope of the Commissioner’s authority under Section 2(b): it “authorizes the Commissioner to promulgate regulations directed only to ‘the conduct of proceedings in the [PTO]’; it does NOT grant the Commissioner the authority to issue substantive rules.” *Merck & Co. v. Kessler*, 80 F.3d 1543, 1549–50 & n.6 (Fed. Cir. 1996) (alterations in original). *See also Therasense, Inc. v. Becton, Dickinson & Co.*, 649 F.3d 1276, 1294 (Fed. Cir. 2011) (same). Accordingly, an interpretation of that provision which exempts rules of procedure—which are the only rules that the PTO is authorized to promulgate—from notice-and-comment requirements renders the statutory language “shall be made in accordance with section 553 of Title 5” a complete nullity and must be rejected on that basis.

many in the U.S. Code—contain ineffective and superfluous references to 5 U.S.C. § 553.

That interpretation must also be rejected because it would nullify a related provision of the Act. Section 3(a)(2)(B) directs PTO to “consult with the Patent Public Advisory Committee” when “changing or proposing to change...regulations which are subject to the requirement to provide notice and opportunity for public comment under section 553 of title 5.” 35 U.S.C. § 3(a)(2)(B). This consultation requirement contemplates that regulations promulgated pursuant to Section 2(b)(2) will be subject to the APA’s notice-and-comment requirements; otherwise, it too would be entirely superfluous—another reason that the PTO’s interpretation is impermissible.

Moreover, the PTO’s proffered interpretation makes no sense in light of the Patent Act’s history. Congress amended the Patent Act in 1999 specifically to add the notice-and-comment requirement, which did not previously exist. American Inventors Protection Act (“AIPA”), Pub. L. No. 106-113, App. I, 113 Stat. 1501A-552, 572–73 (1999) (codified at 35 U.S.C. § 2(b)(2)(B)) (providing that “regulations...govern[ing] the conduct of proceedings in the Office...shall be made in accordance with section 553 of title 5”). *Compare* 35 U.S.C. § 6(a) (1994) (repealed 1999) (authorizing Commissioner to “establish regulations...for the conduct of proceedings,” but making no reference to 5 U.S.C. § 553). “When Congress acts to amend a statute, we presume it intends its amendment to have real and substantial effect.” *Stone v. INS*, 514 U.S. 386, 397 (1995). The PTO’s interpretation would deprive the amendment of any force, effectively reinstating the pre-amendment law, and must be rejected on that basis.

Courts have routinely construed materially identical cross-references to APA § 553 as mandating notice-and-comment rulemaking. That was the approach of the First Circuit in interpreting the Food Stamp Act’s nearly identical cross-reference to APA § 553 in *Levesque v. Block*, 723 F.2d 175, 177 (1st Cir. 1983). Like the Patent Act, the Food Stamp Act authorizes an agency to issue regulations “in accordance with the procedures set forth in section 553 of Title 5.” 7 U.S.C. § 2013(c). But Section 553(a)(2) contains an explicit exemption for “a matter relating to...grants [and] benefits,” which (if applied) would have rendered the cross-reference to Section 553 a nullity. *Levesque*, 723 F.2d at 177. Rejecting that impermissible interpretation, the First Circuit interpreted the cross-reference of APA § 553 to require notice-and-comment procedures “despite the exemption from APA procedures for grant and benefit programs.” *Id.* The Tenth Circuit has given the Food Stamp Act the same reading. *Klaips v. Bergland*, 715 F.2d 477, 482–83 (10th Cir. 1983) (holding that cross-reference to APA § 553 requires notice-and-comment rulemaking), and that interpretative approach is consistent with general principles of incorporation by reference, *see, e.g., Ramey v. Dir., Office of Workers’ Comp. Program*, 326 F.3d 474, 477 (4th Cir. 2003) (rejecting a similar “double incorporation” theory that would have rendered a statutory provision meaningless).¹¹ For courts to hold otherwise, as the PTO argues they should,

¹¹ The same principle governs contractual provisions that incorporate the law of a given jurisdiction to govern the contract: the parties are presumed to have incorporated “the ‘local law’ of the chosen state” which excludes “its choice-of-law rules”—otherwise, by incorporating California law, the parties might

would deprive dozens of statutory cross-references to APA § 553 of any legal effect. *See supra* n.10 (citing statutory provisions that the PTO’s approach would nullify).

The only case to have addressed the question of whether PTO procedural rules are governed by notice-and-comment requirements held that “the structure of Section 2(b)(2) makes it clear that the USPTO must engage in notice-and-comment rulemaking when promulgating rules it is...empowered to make—namely, procedural rules.” *Tafas v. Dudas*, 541 F. Supp. 2d 805, 812 (E.D. Va. 2008), *district court decision reinstated*, *Tafas v. Kappos*, 586 F.3d 1369 (Fed. Cir. 2009). The PTO contends (at Appx171) that the Federal Circuit’s decision in *Animal Legal Defense Fund v. Quigg*, 932 F.2d 920, 930 (Fed. Cir. 1991), conflicts with and overrides *Tafas*, but its reliance is misplaced. *Quigg* applied the notice-and-comment exception for *interpretive rules* to Section 2(b) and therefore did not provide guidance in addressing MPEP § 1207.04, which the PTO concedes “is a rule of procedure.” *See* Appx64. Moreover, *Quigg* was decided before the Patent Act was amended in 1999 in favor of an explicit notice-and-comment rulemaking requirement and so did not address the current statute.

The PTO also argued below that the 1999 amendment that added the cross-reference to APA § 553 merely authorizes the PTO to employ notice-

unwittingly end up having their dispute settled by Missouri law, if California’s conflict-of-laws principles so dictate. *See* Restatement (Second) of Conflict of Laws § 187, cmt. h (1971). That would “defeat the basic objectives...which the choice-of-law provision was designed to achieve.” *Id.*

and-comment procedures if it so chooses. But that, too, impermissibly renders the 1999 amendment superfluous. Even prior to the amendment, the PTO was free to provide notice and an opportunity for comment on its proposed rules. *See Vermont Yankee Nuclear Power Corp. v. NRDC*, 435 U.S. 519, 524 (1978) (“Agencies are free to grant additional procedural rights in the exercise of their discretion.”).

Finally, the legislative history of the 1999 amendment confirms Congress’s intent that the PTO employ notice-and-comment procedures to promulgate procedural rules. Early drafts of the 1999 amendment provided that the PTO “may establish regulations, not inconsistent with law, which... shall be made after notice and opportunity for full participation by interested public and private parties.” 21st Century Patent Improvement Act, H.R. 400, 105th Cong. § 112 (1997). That language was subsequently amended to read, “shall be made in accordance with section 553 of title 5,” 35 U.S.C. § 2(b)(2)(B), which is Congress’s standard boilerplate for requiring observance of APA notice-and-comment procedures in rulemaking. *See supra* n.10 (citing and discussing examples). The earlier drafts confirms that Congress always intended Section 2(b)(2) to require the PTO to adopt procedural rules through notice-and-comment rulemaking, with the only change being to substitute Congress’s standard language for requiring notice-and-comment rulemaking pursuant to the APA. That was the purpose and the effect of the amendment.

B. MPEP § 1207.04 Is Not an Interpretive Rule or General Statement of Policy

The PTO contends that MPEP § 1207.04 is a “policy statement” or an “interpretive rule” and therefore not subject to notice-and-comment requirements under APA Section 553. Appx173. That argument is impossible to square with the text and function of MPEP § 1207.04, let alone the PTO’s repeated acknowledgment that MPEP § 1207.04 is in fact a “procedural rule.” Appx65. *See also* Appx64 (“MPEP § 1207.04 is a rule of procedure.”). As a procedural rule, MPEP § 1207.04 falls squarely within the notice-and-comment requirement for rules that “govern the conduct of proceedings in the Office.” 35 U.S.C. § 2(b)(2)(A).

An interpretive rule “clarif[ies] or explain[s] existing law or regulations so as to advise the public of the agency’s construction of the rules it administers.” *Gunderson v. Hood*, 268 F.3d 1149, 1154 (9th Cir. 2001). “If the rule cannot fairly be seen as interpreting a statute or a regulation...the rule is not an interpretive rule exempt from notice-and-comment rulemaking.” *Catholic Health Initiatives v. Sebelius*, 617 F.3d 490, 494 (D.C. Cir. 2010) (quotation marks omitted). A classic example of an interpretive rule would be an agency’s determination that a “day planner” falls into the category of “diaries, notebooks and address books.” *United States v. Mead Corp.*, 533 U.S. 218, 224 (2001) (alterations omitted). Similarly, an agency’s documentation requirements for demonstrating a regulation-required “verifiable documented drug abuse problem” is an interpretive rule. *Mora-Meraz v. Thomas*, 601 F.3d

933, 940 (9th Cir. 2010). By contrast, a rule that affects how an agency conducts its proceedings is not an interpretive rule. *Yesler Terrace Cmty. Council v. Cisneros*, 37 F.3d 442, 449 (9th Cir. 1994) (holding that HUD “did more than construe the statute” when it changed how it “make[s] due process determinations”).

MPEP § 1207.04 operates in precisely that fashion. It authorizes an examiner to reopen prosecution after the applicant has filed an appeal. More than that, it prescribes the circumstances and procedures for taking such an action, as well as imposing obligations on patent applicants—for example, that they take certain steps “to avoid abandonment of the application.” *See Cisneros*, 37 F.3d at 449 (rules that “impose obligations” are “[s]ubstantive rules”). And MPEP § 1207.04 does not purport to be interpreting any statutory or regulatory language; indeed, the PTO has never stated exactly what language it may be interpreting, either. The reason is that MPEP § 1207.04 is not an interpretative rule.

Nor is MPEP § 1207.04 a “general statement of policy.” Under the APA, a “rule” is an “agency statement of general or particular applicability and future effect designed to implement, interpret, or prescribe law or policy or describing the organization, *procedure, or practice requirements of an agency*....” 5 U.S.C. § 551(4) (emphasis added). By contrast, a “general statement of policy,” such as an agency letter expressing “‘concerns’ about [a] practice,” does not establish “binding” rules. *Ctr. for Auto Safety v. Nat’l Highway Traffic Safety Admin.*, 452 F.3d 798, 799 (D.C. Cir. 2006). MPEP § 1207.04 prescribes

detailed procedural requirements and obligations that govern a phase of the patent application process and so, like similar MPEP sections, is unquestionably an APA Rule. *See PerSeptive Biosystems, Inc. v. Pharmacia Biotech, Inc.*, 225 F.3d 1315, 1321 (Fed. Cir. 2000) (“[T]he Manual of Patent Examining Procedure details the rules of inventorship to be used by examiners.”) (quotation marks omitted); *Regents of Univ. of New Mexico v. Knight*, 2000 WL 36116751, at *10 (D.N.M. June 1, 2000) (“MPEP § 306 is a procedural rule.”).

In sum, MPEP § 1207.04 is not merely an interpretive rule or guidance document, but rather a rule that “govern[s]” the patent appeals process in its own right. 35 U.S.C. § 2(b)(2). As such, it is subject to the notice-and-comment requirement of Section 2(b)(2)(B).

IV. PTO Unlawfully Denied Mr. Hyatt’s Petition for Rulemaking

Mr. Hyatt petitioned the PTO to comply with the unambiguous text of the Patent Act by promulgating procedural agency rules through notice-and-comment rulemaking, 35 U.S.C. § 2(b)(2)(B), and removing an unlawful barrier to the Appeal Board’s “review [of] adverse decisions” by patent examiners, 35 U.S.C. § 6(b)(1). Like the Environmental Protection Agency’s dismissive treatment of a rulemaking petition in *Massachusetts v. EPA*, the PTO responded with “a laundry list of reasons” to “avoid its statutory obligation.” 549 U.S. 497, 533–34 (2007). But a laundry list of reasons irreconcilable with the statutory text is not a “reasoned justification” for rejecting a petition that

demands an agency “comply with [a] clear statutory command”—it is an unlawful justification. *Id.*

Under the APA, “an agency must provide a reasoned explanation for its refusal to initiate rulemaking.” *Horne v. U.S. Dep’t of Agric.*, 494 F. App’x 774, 777 (9th Cir. 2012) (quotation marks and alterations omitted); *Preminger v. Sec’y of Veterans Affairs*, 632 F.3d 1345, 1354 (Fed. Cir. 2011) (“[A] court looks to see whether the agency employed reasoned decisionmaking in rejecting the petition.”). While this explanation is entitled to some deference, a court “will set aside an agency’s decision to deny a petition for rulemaking...if it is ‘arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law.’” *Elec. Privacy Info. Ctr. v. U.S. Dep’t of Homeland Sec.*, 653 F.3d 1, 5 (D.C. Cir. 2011) (quoting 5 U.S.C. § 706(2)(A)). An agency arbitrarily and capriciously denies a petition when it commits “plain errors of law, suggesting that the agency has been blind to the source of its delegated power.” *Am. Horse Prot. Ass’n, Inc. v. Lyng*, 812 F.2d 1, 5 (D.C. Cir. 1987) (quotation marks omitted). *See also id.* at 6 (finding USDA acted arbitrarily and capriciously by denying petition based on balancing test not authorized by statute); *Massachusetts*, 549 U.S. at 534–35 (finding EPA acted arbitrarily and capriciously by relying on non-statutory rationales to reject petition); *Common Cause v. FEC*, 692 F. Supp. 1391, 1396 (D.D.C. 1987) (remanding petition for rulemaking to FEC because agency’s reasons for denying petition violated plain meaning of FECA); *Horne*, 494 F. App’x at 777 (remanding petition to

USDA because agency relied on a “district court’s decision” instead of providing its own reasoned explanation).

The PTO’s denial of the Director Petition asking it to comply with the clear commands of the Patent Act and its own regulations is unsupportable. For the reasons discussed above, MPEP § 1207.04 is invalid because it conflicts with the plain meaning of the Patent Act, which confers on applicants a right of review for claims that have been twice rejected. *See supra* § II.A. It cannot be reconciled with the PTO’s lawfully promulgated Examiner’s Answer Rule. *See supra* § II.B. And it fails to satisfy the Act’s clear command that regulations to “govern the conduct of proceedings in the Office...shall be made in accordance with section 553 of title 5,” 35 U.S.C. § 2(b)(2). *See supra* § III. In each of these respects, the PTO’s denial of the Director Petition committed plain errors of law.

Conclusion

The Court should reverse the judgment below.

Dated: May 1, 2017

Respectfully submitted,

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AO 450 (Rev. 5/85) Judgment in a Civil Case ⊕

UNITED STATES DISTRICT COURT

**** DISTRICT OF NEVADA

GILBERT P. HYATT, et al.,

Plaintiff(s),

v.

JUDGMENT IN A CIVIL CASE

CASE NUMBER: **2:16-cv-01490-RCJ-PAL**

UNITED STATES PATENT AND
TRADEMARK OFFICE, et al.,

Defendant(s).

Jury Verdict. This action came before the Court for a trial by jury. The issues have been tried and the jury has rendered its verdict.

Decision by Court. This action came to trial or hearing before the Court. The issues have been tried or heard and a decision has been rendered.

Decision by Court. This action came to be considered before the Court. The issues have been considered and a decision has been rendered.

IT IS ORDERED AND ADJUDGED that this action is dismissed for lack of subject matter jurisdiction.

February 17, 2017

DEBRA K. KEMPI
Clerk

/s/ K. Rusin
Deputy Clerk

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**UNITED STATES DISTRICT COURT
DISTRICT OF NEVADA**

)
GILBERT P. HYATT et al.)
)
Plaintiffs,)
)
vs.)
)
U.S. PATENT & TRADEMARK OFFICE et)
al.,)
)
Defendants.)

2:16-cv-01490-RCJ-PAL

ORDER

This case arises out of the reopening of prosecution of certain patent applications before the U.S. Patent and Trademark Office (“USPTO”). Pending before the Court are cross motions for summary judgment.

I. FACTS AND PROCEDURAL HISTORY

Plaintiffs Gilbert Hyatt and the American Association for Equitable Treatment¹ have sued the USPTO and Director Michelle Lee in this Court. The Complaint lists five causes of action arising out of the alleged unlawfulness of section 1207.04 of the Manual of Patent Examining Procedure (“MPEP”), under which an examiner may “reopen prosecution to enter a new ground of rejection in response to [an appeal to the Patent Trial and Appeal Board].” MPEP § 1207.04. Plaintiffs allege that § 1207.04 enables the USPTO to repeatedly reopen prosecution

¹ Hyatt founded this entity in 2016.

1 of finally rejected claims upon appeal, thereby frustrating appellate review by the Patent Trial
2 and Appeals Board (“PTAB”) and ultimately the federal courts. Plaintiffs claim in five related
3 causes of action that § 1207.04 is unlawful under the APA and/or the Patent Act or that at a
4 minimum Defendants’ actions in this case violate the APA. The parties have filed cross motions
5 for summary judgment.

6 **II. DISCUSSION**

7 Defendants note that Hyatt currently has approximately 400 patent applications pending,
8 with a total of over 115,000 claims, all filed in or before 1995, and that Hyatt has filed so many
9 amendments to his interrelated claims that the USPTO has 14 patent examiners dedicated full
10 time to examining his applications. Defendants argue that the 2013 decision to reopen
11 prosecution of 80 of his approximately 400 applications was made in order to ensure consistent
12 treatment between the many interrelated applications, not to frustrate appellate review.
13 Defendants ask the Court to grant summary judgment alternatively based on: (1) lack of subject
14 matter jurisdiction; (2) claim preclusion; (3) the statute of limitations; and (4) the merits.

15 Hyatt previously sued Defendants in this District in 2014, complaining of the delay in
16 appellate review as to the same 80 applications at issue here (“the Previous Action”). (*See*
17 *Compl.*, ECF No. 1 in Case No. 2:14-cv-311). Judge George transferred the Previous Action to
18 the Eastern District of Virginia, which shared exclusive jurisdiction with the Court of Appeals.
19 (*See Order*, ECF No. 29 in Case No. 2:14-cv-311). That court granted summary judgment to
20 Defendants on the merits. *See Hyatt v. USPTO*, 146 F. Supp. 3d 771, 787 (E.D. Va. 2015).
21 Plaintiff did not appeal. Although the Complaint in the Previous Action did not specifically refer
22 to the reopening of Hyatt’s applications under MPEP § 1207.04, but only to the delay in
23
24

1 prosecution and appeal generally, when granting summary judgment against the claims, the court
2 discussed the reopening of prosecution generally and cited § 1207.04 in particular:

3 Plaintiff has no right to an examination free from suspensions, new grounds for
4 rejection, *or reopened prosecution*; plaintiff's right is merely to an examination of
his patent applications. Simply put, the remedy for unreasonable delay under
§ 706(1) is action, not preferential treatment.

5
6 Because the statutorily required action—examination of plaintiff's 80
patent applications in issue—is already actively underway, there is nothing for a
court to compel. The absence of a remedy eliminates the need to determine whether
7 past delays, if any, were unreasonable.

8 *Id.* at 785–86 & n.33 (citing 37 C.F.R. §§ 1.103(e), 41.39(a)(2); MPEP § 1207.04) (footnote
9 omitted; emphasis added). Accordingly, the present claims are precluded.

10 Moreover, as noted by Judge George in the Previous Action, the courts of this District
11 simply have no subject matter jurisdiction to determine Plaintiffs' claims. *See Pub. Util. Comm'r*
12 *of Or. v. Bonneville Power Admin.*, 767 F.2d 622, 626 (9th Cir. 1985) (Kennedy, J.) (citing
13 *Telecomms. Research & Action Ctr. v. FCC*, 750 F.2d 70 (D.C. Cir. 1984)) (“[W]here a statute
14 commits review of final agency action to the court of appeals, any suit seeking relief that might
15 affect the court's future jurisdiction is subject to its exclusive review.”). Because an order
16 invalidating the reopening of prosecution under § 1207.04 would affect the jurisdiction of the
17 PTAB to review the applications at issue and ultimately the jurisdiction of the U.S. District Court
18 for the Eastern District of Virginia or the U.S. Court of Appeals for the Federal Circuit to further
19 review the applications, *see* 35 U.S.C. §§ 144–45, the latter courts have exclusive jurisdiction
20 over the present claims. The Court must therefore either dismiss the case for lack of subject
21 matter jurisdiction or transfer it to one of those courts. The Court will not burden either of those
22 courts with this likely precluded matter. If Plaintiffs wish to refile in one of those courts, they
23 may do so on their own initiative.

24

CONCLUSION

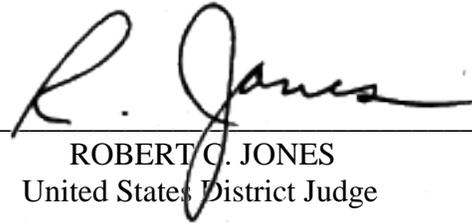
IT IS HEREBY ORDERED that the Motion for Summary Judgment (ECF No. 22) is GRANTED.

IT IS FURTHER ORDERED that the Motion for Summary Judgment (ECF No. 21) is DENIED.

IT IS FURTHER ORDERED that the Clerk shall enter judgment dismissing this action for lack of subject matter jurisdiction and close the case.

IT IS SO ORDERED.

DATED: This 17th day of February, 2017.



ROBERT C. JONES
United States District Judge

Certificate of Service

I certify that on May 1, 2017, I caused the foregoing brief to be filed with the Court electronically using the CM/ECF system, which will send a notification to all counsel of record.

Dated May 1, 2017

/s/ Andrew M. Grossman
Andrew M. Grossman

Certificate of Compliance

I certify that this brief complies with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B) and Fed. Cir. R. 32(a) because it contains 10,591 words, excluding the parts of the brief exempted by Fed. R. App. P. 32(f) and Fed. Cir. R. 32(b).

Dated May 1, 2017

/s/ Andrew M. Grossman
Andrew M. Grossman