

2017-1722

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**United States Court of Appeals  
for the Federal Circuit**

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GILBERT P. HYATT,  
AMERICAN ASSOCIATION FOR EQUITABLE TREATMENT, INC.,  
*Plaintiffs – Appellants,*

v.

UNITED STATES PATENT AND TRADEMARK OFFICE,  
ANDREI IANCU, in his official capacity as Under Secretary of  
Commerce for Intellectual Property and Director U.S. Patent and  
Trademark Office,  
*Defendants - Appellees.*

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

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**BRIEF OF *AMICI CURIAE* U.S. INVENTOR, NATIONAL INNOVATION  
ASSOCIATION, PROFESSIONAL INVENTORS' ALLIANCE, SMALL BUSINESS  
TECHNOLOGY COUNCIL, ORBITAL RESEARCH, INC., AND CLEVELAND  
MEDICAL DEVICES, INC. IN SUPPORT OF GRANT OF PANEL REHEARING  
AND REHEARING *EN BANC*, BUT IN SUPPORT OF NEITHER PARTY**

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November 21, 2018

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## CERTIFICATE OF INTEREST

Counsel for *amici curiae* certifies the following:

1. The full name of every party or *amicus* represented by me is:

U.S. Inventor, National Innovation Association, Professional Inventors' Alliance, Small Business Technology Council, Orbital Research, Cleveland Medical Devices, Inc.

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2. The names of the real parties in interest represented by me as *amici* are:

As named in 1.

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3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the *amici* represented by me are:

No *amicus* is publicly traded, and no publicly traded entity owns 10% or more of any *amicus*.

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4. The names of all law firms and the partners or associates that have appeared for the party or *amici* now represented by me in the trial court or agency or are expected to appear in this court are:

David E. Boundy, Cambridge Technology Law LLC

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5. A decision in this case could directly affect thousands or tens of thousands of patent applications now pending at PTO, applications whose prosecution may be unduly delayed because of the PTO practice under the guidance provision that is subject of this rehearing request. Undersigned counsel represents inventors in many of these potentially-affected cases. None are "related cases" as that term is defined by Federal Circuit Rule 47.5.

Date: November 21, 2018

/s/ David E. Boundy

David E. Boundy

Counsel for *Amici Curiae*

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## IDENTITY AND INTEREST OF AMICI CURIAE

**U.S. Inventor, the National Innovation Association, and Professional Inventors Alliance USA** provide education for independent inventors, small and medium-sized businesses, and colleges and universities. Together, these organizations represent over 20,000 inventors.

The **Small Business Technology Council** is a council of the National Small Business Association (NSBA), and advocates for 6,000 highly inventive firms that participate in the Small Business Innovation Research and Small Business Technology Transfer programs. These firms produce more patents than all the American universities combined.

**Orbital Research, Inc.** is a custom engineering company, and **Cleveland Medical Devices, Inc.** is a medical technology company. Together, they have some 90 patents and applications, many of which have been delayed by MPEP § 1207.04 reopens after appeal.

All parties have consented to filing of this brief.

**STATEMENT UNDER FRAP 29(a)(4)(E)**

No party or party's counsel authored this brief in whole or in part.

No party or party's counsel contributed money that was intended to fund preparing or submitting this brief.

No person, other than *amici*, their members, and counsel, contributed money intended to fund preparing or submitting this brief.

## INTRODUCTION

This Court should reconsider the panel’s decision because it erred on a matter of exceptional importance—it held that PTO can deny an applicant’s statutory right to appeal by reopening prosecution after the filing of appeal brief, and can block an applicant’s access to appeal as many times as it deigns. Beyond the 2200 annual additional appeal briefs noted in Mr. Hyatt’s petition (at 11), MPEP § 1207.04 distorts the entire examination process, incentivizing examiners to reduce the precision of each Office Action. The resultant procedural unpredictability shifts immense cost and delay onto applicants.

As PTO explained when it adopted 37 C.F.R. § 41.39(b) in 2004, Rule 41.39(b)” fairly recognizes that examiners aren’t perfect, and should be allowed to raise new grounds—but simultaneously recognizes that the whole reason for appeal is that the applicant believes the examiner isn’t “getting it” and higher-level review is needed. PTO explained, twice, that the proper place for the choice between reopening and attempting to persuade the examiner vs. maintaining the appeal to move on to the Board, is with the appellant. 69 Fed.Reg. 49980, Answer 69; 76 Fed.Reg. 72286, Response 31. But PTO has never offered any explanation of public benefit for giving a conflicting choice to examiners under MPEP § 1207.04.

These unexplained costs arise from PTO's neglect of statutes that help agencies consider the public interest, including 5 U.S.C. §§ 552 and 553, the Paperwork Reduction Act and its implementing regulations (which has its own notice-and-comment provision), and 35 U.S.C. § 2(b)(2)(B) (vis-à-vis the public, PTO must act by "regulation," not just by "rule"). An agency may use nonregulatory guidance to *interpret* ambiguities. But gap-filling, new rules out of whole cloth, or carve-outs from procedural regulations that operate in favor of the public, all require statutory rulemaking procedure. PTO declined to do so here, in contravention of sound regulatory policy and law. *See, e.g., Chrysler Corp. v. Brown*, 441 U.S. 281, 303 (1979) (an agency rule "must conform with any procedural requirements imposed by Congress. ... [to] 'assure fairness and mature consideration of rules of general application.'"); *Christensen v. Harris County*, 529 U.S. 576, 588 (2000) (an agency cannot, "under the guise of interpreting a regulation, ... create *de facto* a new regulation."); *Perez v. Mortgage Bankers Ass'n*, 135 S.Ct. 1199, 1206 (2015) (to amend a rule, an agency must use the same procedure that was used in first instance); and *NLRB v. Wyman-Gordon Co.*, 394 U.S. 759, 763-66 (1969) (an agency may not bypass statutory rulemaking procedure).

The Court should take this case *en banc*, to provide relief for applicants and to correct PTO's error.

## ARGUMENT

### **I. MPEP § 1207.04 raises costs for all applicants by distorting pre-appeal prosecution**

MPEP § 1207.04 distorts the entire prosecution landscape by allowing examiners to avoid careful, thorough examination during “regulation” examination. Instead, that careful thought is delayed until appeal “overtime,” with MPEP § 1207.04 as the vehicle for shifting the cost of that delay off the examiner and back onto the applicant.

The Patent Office examines applications under a *quid pro quo* called “compact prosecution:” the Office limits an applicant to two rounds of prosecution, and charges a fee for a third (and cuts off patent term adjustment). *In return*, the Office promises that every Office Action will be “complete” and that “in every case the applicant is entitled to a full and fair hearing” (37 C.F.R. § 1.104(a); MPEP § 706.07).

In adopting MPEP § 1207.04, PTO let down its half of the “compact prosecution” bargain. MPEP § 1207.04 has become an exception that often swallows the rule: § 1207.04 allows an examiner to defer careful, precise, fully-explained examination until appeal. Patent

attorney electronic discussions note the rising frequency with which attorney arguments get short-shift during “regulation” prosecution. When the same arguments are presented during appeal “overtime,” the examiner reads the argument carefully, and is no longer willing to defend a rejection. Instead, all too often, the examiner withdraws all rejections, and reopens prosecution to raise entirely new issues under MPEP § 1207.04.

Examiner failure to carefully consider applicants’ arguments the first (or second, or third) time they’re presented creates *immense* expense, and loss of patent term. Applications go eight and ten Office Actions, with two and three reopens along the way. *E.g.*, application 10/947,719 of *amicus* Orbital Research (two reopens, contributing to near-seven-year pendency); 11/811,157 of *amicus* CleveMed (one reopen, two appeals, contributing to eight-year pendency); 10/726,341 (two reopens, three appeal briefs, and then all rejections reversed when the appeal reaches the Board); 11/627,902 (appeal from a tenth Office Action, presenting arguments for the fourth time, after three rounds of nonresponsive from examiner).

Appeal should be a mechanism that leads to a conclusion. In contrast, MPEP §1207.04 turns appeal into a prolongation of the inch-by-inch, through-the-mud, trench warfare before an inattentive or

unpersuadable examiner that led to the appeal in the first place. It's one of several related shifts in PTO policy that have reduced examiner accountability, fundamentally altered incentives for examiners, and eroded the "compact prosecution" bargain, creating costs and delay for both PTO and for applicants.

**II. MPEP § 1207.04 exemplifies the costs that arise when an agency evades the law that governs rulemaking**

**A. By avoiding statutory rulemaking, PTO neglected costs on the public, and laws that govern agency adjudication**

No Federal Register notice or PTO Brief in this case has argued that MPEP § 1207.04 provides greater efficiency *for the public* than § 41.39(b). The "efficiency" PTO argues accrues only to PTO itself. How did PTO arrive at MPEP § 1207.04, a policy that is contrary to law, that creates immense burdens on the public, and has no identifiable offsetting benefit? By neglecting rulemaking procedure, and instead smuggling a stowaway rule into guidance. A number of rulemaking procedural statutes obligate agencies to consult with the public, introspect, analyze, and provide an explanation of rationale for any rule. Statutory rulemaking procedure is designed to ensure that an agency does not raise costs on the public by \$2 to reduce agency costs by \$1, does not create costs on the public that can be reduced through

better internal agency controls, does not impose undue burden on small entities, etc. Statutory rulemaking procedure ensures predictability and, ultimately, “reasoned decisionmaking.”

If PTO had followed these statutes, and put MPEP § 1207.04 through the same notice-and-comment vetting that it used for § 41.39(b), the public would have pointed out the problems, and that MPEP § 1207.04 is inconsistent with PTO’s obligations to “proceed to conclude a matter presented to it,” 5 U.S.C. § 555(b), and the obligation to avoid bouncing a matter between various levels of intra-agency review. *Deering-Milliken Inc. v. Johnston*, 295 F.2d 856, 865 (4th Cir. 1961); *McDonnell Douglas Corp. v. National Aeronautics and Space Admin.*, 895 F.Supp. 316, 319 (D.D.C. 1995) (condemning “second bites” and an agency’s “never ending loops”).

**B. To go beyond *interpretation*, an agency must act by *regulation*, not by guidance**

The division between “interpretation” and other rulemaking is one of the most important in administrative law. An agency may use nonregulatory guidance to “interpret” ambiguity. 5 U.S.C. § 553(b)(A). A PTO rule that goes beyond *interpretation* must use the procedures required by the statutes noted above, and bear the formality of a “*regulation*.” 35 U.S.C. § 2(b)(2)(B).

The dividing line between “interpretation” and other rulemaking was illustrated in two cases with almost identical facts but opposite outcomes. Both concerned rules promulgated without the statutory procedures of a “regulation.” *NLRB v. Bell Aerospace Co.*, 415 U.S. 267, 294 (1974) approved a nonregulatory rule, because it had interpretative grounding in an ambiguous statutory term, “managerial employees.” In contrast, *NLRB v. Wyman-Gordon Co.*, 394 U.S. 759, 763-66 (1969) struck down a rule that had been promulgated by exactly the same procedure, and that was entirely consistent with the statute and within the agency’s authority, because it created an obligation with no direct textual grounding in statute or regulation, and was not promulgated by statutory rulemaking procedure. *Wyman-Gordon* gave the NLRB a three-paragraph tutorial on the importance of APA rulemaking for rules that go beyond “interpretation.” 394 U.S. at 763-66.

The D.C. Circuit cautioned agencies against noninterpretative law made “without notice and comment, without public participation, and without publication in the Federal Register or the Code of Federal Regulations.” *Appalachian Power Co. v. EPA*, 208 F.3d 1015, 1020 (D.C. Cir. 2000). The Supreme Court amplified that guidance may not go beyond interpreting text: an agency cannot, “under the guise of

interpreting a regulation, ... create *de facto* a new regulation.”  
*Christensen*, 529 U.S. at 588.

Guidance may be used to *interpret*, not to create carve-outs from procedural regulations that operate in favor of the public. *E.g.*, *Perez*, 135 S.Ct. at 1206; *Christensen*, 529 U.S. at 588; *Berkovitz v. United States*, 486 U.S. 531, 544 (1988) (an agency has no discretion to deviate from its regulations). Prof. Robert Anthony, who was then Chairman of the Administrative Conference of the United States, wrote in a 1992 article:

*Interpretive Rules, Policy Statements, Guidances, Manuals, And The Like—Should Federal Agencies Use Them To Bind The Public?*

With one exception, the answer to the question in the title is “no.” ...

The sole category of exceptions—where an agency may permissibly attempt to make a substantive nonlegislative rulemaking document binding on private parties—is for interpretive rules. These are rules that interpret statutory language which has some tangible meaning, rather than empty or vague language like “fair and equitable” or “in the public interest.” An agency may nonlegislatively announce or act upon an interpretation that it intends to enforce in a binding way, so long as it stays within the fair intendment of

the statute and does not add substantive content of its own.

...

... [W]hen an agency uses rules to set forth new policies that will bind the public, it must promulgate them in the form of legislative rules.<sup>1</sup>

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<sup>1</sup> Robert Anthony, *Interpretive Rules, Policy Statements, Guidances, Manuals, And The Like—Should Federal Agencies Use Them To Bind The Public?*, 41 Duke L.J. 1311, 1311-13 (June 1992) (emphasis in original).

Two further articles explaining “interpretative” rules and nonregulatory guidance, and PTO’s nonobservance of statutory rulemaking, include:

- An article recommended by Judge Plager at the March 2018 Judicial Conference, David Boundy, *The PTAB is Not an Article III Court*, ABA LANDSLIDE 10:2 (Nov-Dec. 2017).
- David Boundy, *The PTAB is Not an Article III Court, Part 3: Precedential and Informative Decisions*, forthcoming in AIPLA Q.J., at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3258694](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3258694). Pages 3 to 17 are particularly relevant.

PTO's red brief of June 2017, at 56, claims that MPEP § 1207.04 is an "interpretive" rule. Strikingly, PTO does not identify any ambiguity that § 1207.04 "interprets" or "language which has some tangible meaning" to which § 1207.04 provides some interpretive gloss, but rather explains that MPEP § 1207.04 is a new creation out of whole cloth, analogous the rule set aside in *Wyman-Gordon*. If there's no identifiable, tangible statutory or regulatory term being "interpreted," then MPEP § 1207.04 is beyond PTO's rulemaking authority.

**C. § 552 notice**

5 U.S.C. § 552(a) directs agencies to publish all rulemaking notices through the Federal Register, so that the agency speaks with a consistent voice, and the public need not watch a dozen rulemaking channels simultaneously. In contrast, PTO issues a cacophony of uncoordinated and sometimes-conflicting messages, creating uncertainty and costs for both the public and for PTO itself.<sup>2</sup>

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<sup>2</sup> PTO's nonstatutory communications, avoidance of the Federal Register, and conflicts between PTO guidance and regulation, are elaborated in Boundy *Part 3*, note 1, at 3-10.

MPEP § 1207.04 is a case in point, creating a new rule, with no basis in statute or regulation, and no § 552 notice. (The only mention of MPEP § 1207.04 in the Federal Register, 76 Fed. Reg. 72287, Response 58, explains that § 1207.04 is “outside the scope” of that notice, so PTO can’t rely on it.) Had PTO followed proper publication procedure, § 552’s channeling function may well have led PTO to catch the conflict between its guidance and regulations.

Further, agencies may not enforce rules until a party has the notice specified by § 552(a)(1), last paragraph. After 60 years of neglect, PTO published the *first ever* statutory notice of the MPEP in **January 2018**. 83 Fed. Reg. 4473 (Jan. 31, 2018).

*Amici* know of no case in which a time bar was applied to a rule where the agency avoided *all* obligations of rulemaking, including § 552 notice, so that the rule never acquired enforceable effect. *See Loudner v U.S.*, 108 F.3d 896, 902 (8th Cir. 1997) (statute of limitations not triggered when notice is insufficient).

### **III. This is a question of exceptional importance—in the billions of dollars**

The costs of PTO’s evasion of law relating to guidance are **staggering**: a survey on one of the patent attorney email forums asked “As a percentage of your post-filing prosecution (after initial filing,

before allowance), what percentage of your time do you spend dealing with PTO error due to misuse of guidance?”<sup>3</sup> The median (half above, half below) was “a little under 50%,” and mode (most common response) was 50%. This translates into over ***\$1.5 billion per year*** in direct attorney fees, about the same as PTO’s budget for its entire patent operation.<sup>4</sup>

When the value of lost patent protection, companies not formed or that fold because of delays and unpredictability of their patent applications, business opportunities not pursued, and similar economic

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<sup>3</sup> The question asked about rules invalidly promulgated via guidance, PTO neglect to provide accurate guidance, examiner failure to follow written guidance, supervisory failure to enforce guidance, etc.

<sup>4</sup> The PTO’s most-recent estimate of direct costs of prosecution, after filing and before allowance, not including appeals, was \$3.9 billion per year, in 2012. 77 Fed. Reg. 16813-17. For FY2012, the budget for the PTO’s entire patent business unit was about \$1.5 billion. PTO Performance and Accountability Report FY2012 <https://www.uspto.gov/sites/default/files/about/stratplan/ar/USPTOFY2012PAR.pdf> at 74. FY2018 numbers are up over FY2012 by about 28%.

effects are factored in, the economic damage caused by PTO's neglect of the law governing guidance is almost certainly several times larger.

### CONCLUSION

The Court should grant the petition for rehearing.

Date: November 21, 2018

By: /s/ David E. Boundy

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**CERTIFICATE OF COMPLIANCE  
WITH TYPE-VOLUME LIMITATION, TYPEFACE  
REQUIREMENTS, AND TYPE STYLE REQUIREMENTS**

1. This brief contains 2464 words, excluding the parts of the brief exempted by Federal Rule of Appellate Procedure 32(f).

2. This brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) or Federal Rule of Federal Circuit Rule 28.1 and the type style requirements of Federal Rule of Appellate Procedure 32(a)(6).

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Date: November 21, 2018

By: /s/ David E. Boundy  
DAVID E. BOUNDY

**CERTIFICATE OF SERVICE**

I certify that, on this day, November 21, 2018, I caused copies of the foregoing Brief of *Amici Curiae* National Innovation Association, U.S. Inventor, and Professional Inventors' Alliance, in Support of Grant of Panel Rehearing and Rehearing *En Banc*, to be served via the Court's CM/ECF on all counsel registered to receive electronic notices.

Additionally, 18 paper copies will be sent to the Court within the time allowed by Rule.

Date: November 21, 2018

By: /s/ David E. Boundy  
DAVID E. BOUNDY