

# CAMBRIDGE TECHNOLOGY LAW LLC

TECHNOLOGY LAW WITH A BUSINESS PERSPECTIVE

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December 21, 2018

Via Email [TrialRFC2018Amendments@uspto.gov](mailto:TrialRFC2018Amendments@uspto.gov)

PTAB Request for Comments 2018

Acting Deputy Chief Administrative Patent Judge Jacqueline Wright Bonilla or Vice Chief

Administrative Patent Judge Michael Tierney

Mail Stop Patent Board

Director of the United States Patent and Trademark Offices

P.O. Box 1450

Alexandria, VA 22313-14503

Re: Request for Comments on Motion To Amend Practice and Procedures in Trial Proceedings Under the America Invents Act Before the Patent Trial and Appeal Board, 83 Fed. Reg. 54319 (Oct. 29, 2018)

Dear APJ's Bonilla and Tierney:

This is the way it's supposed to start—notice in the Federal Register, setting a reasonable notice-and-comment period, asking questions to scope out collateral conforming changes, unintended consequences, implementing procedural regulations, and the like. The contrast against the “ordinary meaning” notice and the *Proppant* call for briefing is welcome.

## Integration with claim construction

The “ordinary meaning” rule from earlier this fall is fatally defective in several respects.<sup>1</sup> One of the problems is that the PTO only changed the substantive claim construction standard, but included none of the necessary procedural implementing regulations. 35 U.S.C. § 316(a) only authorizes the Director to govern IPR/PGR proceedings by “regulation,” not by other less-formal rulemaking.

This motion to amend rule will require further rulemaking by notice-and-comment, and that might be a good time to cure the problems with the “ordinary meaning” rule, before a party

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<sup>1</sup> See my letter to Neomi Rao, OIRA administrator, of September 18, 2018,

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that loses an IPR/PGR challenges the entire proceeding for lack of properly-promulgated procedural regulations.

The last two pages of the Federal Register notice suggest a timeline for motions to amend. (This timeline will have to be reduced to “regulation” promulgated by notice-and-comment rulemaking in due course.) I suggest that a similar step-by-step timeline be developed for claim construction, analogous to the *Markman* rules of many of the district courts. I believe that it’s crucial to the parties and the PTAB that claim construction be pinned down (to at least a preliminary degree) in the institution decision. The PTAB’s analysis for institution cannot be precise unless there’s a claim construction. The parties can’t meaningfully brief issues during the proceeding without guidance on claim construction. The decision to move to amend may turn on claim interpretation—if the patent owner obtains its choice of claim construction, then no motion to amend may be necessary.

In order to work claim construction into the schedule, § 316(a) directs that the Director is to act by “regulation.”

### **Rulemaking To Allocate the Burden of Persuasion as Set Forth in the Western Digital Order**

The Federal Register notice “requests comments from the public regarding whether [the PTO] should engage in rulemaking to allocate the burden of persuasion.”

On that specific issue, no rulemaking is necessary. That allocation is already specified by statute. No redundant regulation is necessary. The IPR regulations set three relevant requirements for a motion to amend:<sup>2</sup>

- (a) The amendment must “respond to a ground of unpatentability involved in the trial” (§ 42.121(a)(2)(i))—the regulation does not require that the “response” be explained.
- (b) The amendment may not “seek to enlarge the scope of the claims ... or introduce new subject matter” (§ 42.121(a)(2)(ii)). Likewise, the regulation only specifies content of claims, without calling for an explanation by the patent owner.
- (c) The amended claims must have § 112(a) support (37 C.F.R. § 42.121(b)). That’s the only element for which current regulation calls for the patent owner to explain.

The regulations also specify who bears the ultimate burden of proof. 37 C.F.R. § 42.20 provides that in any motion, “the moving party has the burden of proof ...” However, § 42.20 says nothing to define *what* has to be proved. Nothing in the NPRM (or 2012 Final Rule notice, for that matter) suggests that § 42.20, as applied to motions to amend, somehow places on the patent owner a burden to show anything not explicitly set forth in § 42.121.

The right allocation of the procedural burden of going forward is the practical one: parties ought not be asked to prove a negative. The patent owner is in the better position to show

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<sup>2</sup> Patent and Trademark Office, *Changes to Implement Inter Partes Review Proceedings, Post-Grant Review Proceedings, and Transitional Program for Covered Business Method Patents, Final Rule* (“IPR/PGR Final Rule”), 77 Fed. Reg. 48679, 48686 col. 2 (Aug. 14, 2012).

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support under § 112(a), as specified in § 42.121(a) and (b). The petitioner is in the better position to show anticipation or obviousness. The ultimate burden of proof is on the petitioner.

### General observations on rulemaking

I've written several articles on general principles of rulemaking, under the general title "The PTAB is Not an Article III Court," explaining that, with very narrow exceptions, the PTAB may not engage in rulemaking by precedential decision. The PTO may promulgate interim, pilot program rules under 5 U.S.C. § 553(d)(3), but permanent rules must be promulgated by the Director as "regulations," not a precedential decision, not as guidance. The following articles may be helpful:

- David Boundy, *The PTAB is Not an Article III Court, Part 1: A Primer on Federal Agency Rule Making*, ABA LANDSLIDE 10:2, pp. 9-13, 51-57 (Nov-Dec. 2017), available at <https://www.americanbar.org/content/dam/aba/publications/landslide/2017-nov-dec/ptab-not-article-iii-court.pdf> or at <http://cambridgetechlaw.com/wp-content/uploads/2018/07/Boundy-The-PTAB-is-Not-an-Article-III-Court-Part-1-Primer-in-Federal-Agency-Rulemaking-ABA-Landslide-v-10-n-2-p-9.pdf> gives an overview of the law of rulemaking, including a taxonomy of various terms like "substantive," "procedural," "interpretative," and "legislative."<sup>3</sup> At the March 2018 Federal Circuit Judicial Conference, Judge Plager recommended that the patent bar would do well to understand the administrative law better, and that this article is a good place to begin.<sup>4</sup>
- David Boundy and Andrew B. Freistein, *The PTAB Is Not an Article III Court, Part 2: Aqua Products v. Matal as a Case Study in Administrative Law*, ABA LANDSLIDE 10:5, pp. 44-51, 64 (May-Jun. 2018), available at <http://cambridgetechlaw.com/wp-content/uploads/2018/07/Boundy-The-PTAB-is-Not-an-Article-III-Court-Part-2-Aqua-Products-and-Chevron-Deference-ABA-Landslide-v-10-n-5-p-44.pdf> As the title suggests, this article takes an in-depth look at the failures of rulemaking law that underlay the *Aqua Products* case. As the PTAB considers a rule to replace *Idle Free*, this article might help the PTAB avoid the rulemaking failures that led the Federal Circuit to invalidate that rule.

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<sup>3</sup> The recent "ordinary meaning" claim construction rule suggests that APJ's Bonilla and Tierney are likely deeply confused on the basics of APA rulemaking. Patent and Trademark Office, *Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board*, Final Rule, 83 Fed. Reg. 51340, 51357 col. 2 (Oct. 11, 2018). As only one example among many, the PTAB claims that its claim construction rule is "procedural" because it "will not change the substantive criteria of patentability"—and then explains that facially-absurd statement by relying on cases on the interpretative-vs-legislative distinction. The two are completely distinct from each other, as the *Part 1* article explains.

The citation to executive orders that had been withdrawn ten years ago was, likewise, not encouraging.

<sup>4</sup> Stephen Kunin, the former Deputy Commissioner for Patent Examination Policy, also recommended that patent attorneys read my articles "in detail."

<https://www.linkedin.com/feed/update/urn:li:activity:6475888184550055936>

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- David Boundy, *The PTAB is Not an Article III Court, Part 3: Precedential and Informative Decisions*, forthcoming in *AIPLA Quarterly Journal*, available at [https://ssrn.com/abstract\\_id=3258694](https://ssrn.com/abstract_id=3258694) explains *exactly* what the PTAB can do and can't do by precedential or informative decision, and gives some examples of proper and improper "precedential" and "informative" designations.
- David Boundy, *A Cautionary Note to the PTAB: Proppant, Joinder, and PTAB's Rulemaking-by-Adjudication—How to Avoid Brazen Defiance of the APA and a Rerun of Aqua Products*, at [https://ssrn.com/abstract\\_id=3301053](https://ssrn.com/abstract_id=3301053)

## **Conclusion**

I applaud Director Iancu and the PTO for initiating this rulemaking—I believe that this rule is a step in the right direction. But even the best-intended rules need to follow good rulemaking procedure.

Very truly yours,

A handwritten signature in blue ink, appearing to read "David Boundy". The signature is stylized and cursive.

November/December 2017

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# THE PTAB IS NOT AN ARTICLE III COURT

## A PRIMER ON FEDERAL AGENCY RULE MAKING

BY DAVID E. BOUNDY

**W**hat rules may the United States Patent and Trademark Office (USPTO) promulgate? What procedures must the agency follow when it promulgates a rule? What effect do various rules have? Some are binding against the public, some are only hortatory. Some require extensive rule making procedure, some can be promulgated with the stroke of a pen. Some are unilateral in binding only agency employees but not the public. And some are simply invalid. How is agency rule making power different than an Article III court's?

Administrative law expertise is becoming more and more important to successful representation of clients in intellectual property matters.<sup>1</sup> This article gives an overview of the basic framework of agency rule making. In particular, I provide a table that classifies agency rules—this table simplifies and clarifies a great deal of overly complicated discussion in the standard administrative law treatises. This table and its discussion describe the choices and tradeoffs that agencies face in their rule making decisions, and the opportunities that those choices create for parties before the agency. Expertise in administrative law and agency rule making can guide agency tribunals to favorable decisions, and present compelling arguments to courts after unfavorable decisions.

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**David E. Boundy** of Cambridge Technology Law LLC, in Cambridge, Massachusetts, practices at the intersection of patent and administrative law, and consults to other firms on PTAB trials and appeals. In 2007-09, David led teams that successfully urged the Office of Management and Budget withhold approval of the PTO's continuations, 5/25 claims, IDS, and appeal regulations under the Paperwork Reduction Act. He may be reached at [DBoundy@CambridgeTechLaw.com](mailto:DBoundy@CambridgeTechLaw.com).

## Foundations

### Starting Point: The Constitution

Let's revisit first year of law school—the basic constitutional principles for separation of powers. Article I, section 1, vests “All legislative Powers” in Congress. Article III, section 1, vests “The judicial Power” in the courts.

The executive branch and its agencies are not the legislature. Administrative judges have neither presidential appointment nor Senate confirmation to be “judges” or to have Article III law making authority. So executive branch agencies have no inherent power to make laws—but they do so all the time. How does the USPTO get power to make laws?

By delegation from Congress. Various statutes, including 5 U.S.C. § 301 and 35 U.S.C. § 2(b), § 3(a)(2)(A), § 3(b)(2)(A), § 316(a), and § 326(a), delegate rule making authority to the USPTO and the Director. The Supreme Court enforces constitutional limits on the relative powers of the executive and legislative branches. The current truce line permits Congress to delegate rule making authority, but the delegation must be express or clearly implied, and the agency must follow the procedures set by Congress in promulgating executive branch laws.<sup>2</sup>

The starting point for understanding rule making is to understand the defaults:

- The Constitution assigns legislative authority to Congress. Executive agencies have rule making authority *only* to the extent, and only on the terms, delegated by Congress.<sup>3</sup>
- Binding rules exist in writing, in validly promulgated form. An agency may only enforce rules that have been validly promulgated. Agencies can bind themselves and their employees by informal guidance documents and similar “light” procedure, but not the public.
- In the context of ex parte prosecution, if the USPTO has no statute or regulation to either require or forbid an act, everything an applicant might want to do is permitted and optional.

### When Is a Rule a “Rule,” and When Do the Requirements for “Rule Making” Apply?

The term “rule” is broadly defined in 5 U.S.C. § 551(4), encompassing far more than the regulations codified in the Code of Federal Regulations. A “rule” is *anything* an agency purports to apply generally or prospectively, whether binding or only advisory, whether promulgated as a rule to bind the public or as self-regulation of agency employees. One of the key administrative law cases from the DC Circuit notes that the definition of “rule” in § 551(4) “include[s] nearly every statement an agency may make,” and that exceptions to statutory rule making procedures are “limited.”<sup>4</sup>

If the USPTO raises an objection, rejection, or requirement based on a legal principle arising on its own authority (that is, other than a statute or court decision), the USPTO must show that it complied with applicable rule making procedure to promulgate a rule that is validly binding against the public.

## Laws Governing Rule Making

In roughly the order of adoption, this section catalogs the key laws and policies emanating from the Executive Office of the President that govern agency rule making.

None of these laws is self-executing. Each facially requires an agency to take certain actions, but only rarely are agencies penalized for noncompliance. Some rule making laws create a tribunal within the executive branch to provide regulatory oversight during the rule making phase, and parties may make their concerns known there. Almost all provide that agency nonperformance renders a rule potentially unenforceable. However, after a rule issues, as a practical matter, self-correction by agencies is uncommon (and when user fees are at issue, essentially nonexistent), and the only venue for redress is judicial review. And regardless of whether the venue is administrative or judicial, neither remedy will occur unless an aggrieved party complains, represented by a competent, informed advocate. Without a properly represented complainant, the default is that agency rule making power is greater than statutes provide.

### Housekeeping Act

The Housekeeping Act, 5 U.S.C. § 301, was one of the first laws enacted by the first Congress. The Housekeeping Act authorizes any head of any executive branch department to prescribe regulations governing the agency's own employees, and the performance of the agency's business. There are almost no procedural prerequisites for rules governing agency employees—when an agency head says so, agency employees are bound.

### Administrative Procedure Act

The Administrative Procedure Act (APA) is divided into two broad sections, now 5 U.S.C. chapters 5 and 7. Chapter 5 of the APA, 5 U.S.C. §§ 551–559, specifies duties of agencies as they go about their day-to-day business of rule making, adjudicating, conducting hearings, and the like: the fundamental obligation on an agency under chapter 5 is to explain the agency's rationale, and to do so in a way that demonstrates “reasoned decisionmaking.”<sup>5</sup>

Much of this article will focus on § 553, which governs rule making. Section 553 requires agencies to give the public proper notice of proposed rules, and an opportunity for the public to provide input on those proposed rules. To allow informed comment, the agency must explain its rationale, and make available any data, testing, models, software, or other analytical support for the proposed rules.

#### 5 U.S.C. § 553 – Rule making.

- (a) This section applies, according to the provisions thereof, except to the extent that there is involved—

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- (2) a matter relating to agency management or personnel . . . .

(b) General notice of proposed rule making shall be published in the Federal Register, unless persons subject thereto are named and either personally served or otherwise have actual notice thereof in accordance with law. The notice shall include—

- (1) a statement of the time, place, and nature of public rule making proceedings;
- (2) reference to the legal authority under which the rule is proposed; and
- (3) either the terms or substance of the proposed rule or a description of the subjects and issues involved.

Except when notice or hearing is required by statute, this subsection [(b)] does not apply—

- (A) to interpretative rules, general statements of policy, or rules of agency organization, procedure, or practice; or
  - (B) when the agency for good cause finds (and incorporates the finding and a brief statement of reasons therefor in the rules issued) that notice and public procedure thereon are impracticable, unnecessary, or contrary to the public interest.
- (c) After notice required by this section, the agency shall give interested persons an opportunity to participate in the rule making through submission of written data, views, or arguments with or without opportunity for oral presentation. After consideration of the relevant matter presented, the agency shall incorporate in the rules adopted a concise general statement of their basis and purpose. . . .
- (d) The required publication or service of a substantive rule shall be made not less than 30 days before its effective date, except—
- (1) a substantive rule which grants or recognizes an exemption or relieves a restriction;
  - (2) interpretative rules and statements of policy; or
  - (3) as otherwise provided by the agency for good cause found and published with the rule.
- (e) Each agency shall give an interested person the right to petition for the issuance, amendment, or repeal of a rule.

### ***Independent Offices Appropriations Act***

The Independent Offices Appropriations Act (IOAA) and related laws govern user fees.<sup>6</sup> In two 1974 decisions, the Supreme Court confined fee-setting to incentive-neutral cost recovery, and forbade agencies from setting fees to achieve policy goals, or to encourage one behavior or discourage another, unless Congress expressly delegates such discretion.<sup>7</sup>

### ***Paperwork Reduction Act***

The Paperwork Reduction Act (PRA), with its implementing regulations promulgated by the Office of Information and Regulatory Affairs (OIRA) within the Office of Management and Budget (OMB),<sup>8</sup> protect the public from burdensome paperwork that involves any “collection of information” by or on behalf of an agency. The PRA requires agencies “to minimize the burden on the public to the extent practicable.”<sup>9</sup> In the context of the USPTO, the PRA covers essentially all USPTO rule making, and essentially all paperwork collected by the USPTO.

The PRA and its implementing regulations impose a number of common-sense obligations on an agency. For example:

- The agency must review all rules calling for collection of information to ensure that the agency needs and will actually use the information.<sup>10</sup> The agency must ensure that the information it seeks from applicants has “practical utility,” that is, that the information has “actual, not merely the theoretical or potential, usefulness of information to or for an agency, taking into account its accuracy, validity, adequacy, and reliability, and the agency’s ability to process the information it collects.”<sup>11</sup>
- The agency must certify to the OMB that the agency has reduced the burden “to the extent practicable and appropriate.” The agency must “demonstrate that it has taken every reasonable step to ensure that the proposed collection of information . . . [i]s the least burdensome necessary for the proper performance of the agency’s functions.”<sup>12</sup>
- Rules and requests for information must be “written using plain, coherent, and unambiguous terminology.”<sup>13</sup>
- The agency must ensure that the information it seeks from applicants is not “unnecessarily duplicative.”<sup>14</sup>
- “The agency shall also seek to minimize the cost to itself of collecting, processing, and using the information, but shall not do so by means of shifting disproportionate costs or burdens onto the public.”<sup>15</sup>

During any rule making that calls for submission of paperwork to the agency (*any* rule, no matter how promulgated),<sup>16</sup> the agency must use notice and comment to gain the public’s view on these above bullet points, and then explain to the OMB how the agency complies with them. The agency must repeat this inquiry every three years.

The PRA has a practical implementation problem. All requests for approval flow through a handful of people at the OMB. Agencies submit over 5,000 approval requests to the OMB annually, and the OMB can focus on only the few where public comment requests attention. Agencies have multiple incentives to shortcut procedure and to underestimate the actual burden that their regulations impose—large cost burdens trigger agency responsibilities under other laws, and small numbers mean that the overworked OMB staff is unlikely to pay attention, so that OMB approval can be an action of default without real inquiry. Thus, the PRA—which can be a tremendously powerful law during the rule making stage, and in

judicial review of agency decisions—is only effective when the public engages during comment periods to fully inform the OMB, and raises the issue in judicial review settings.

The PRA is unique in the extent of the remedy available—if an agency fails to obtain OMB approval for paperwork, any member of the public can assert a “public protection” provision “at any time,”<sup>17</sup> and the agency may impose no penalty for the party’s noncompliance with the agency’s request for the paperwork. Because of the incentives to shortcut and underestimate, and the USPTO’s response to those incentives over the last decade, the PRA presents a target-rich environment for parties seeking relief from USPTO action.

In recent filings with the OMB, the USPTO estimates the following major blocks of burden for patent applicants and owners:

	Annual Hours	Annual Dollars
Patent Processing (between initial filing and allowance)	3.8 million <sup>18</sup>	\$371 million
Patent Applications	51 million	\$1.050 billion
Post-Allowance and Refiling	207,000	\$274 million
PTAB Actions (primarily ex parte appeals)	555,000	\$45 million
PTAB Inter Partes Review (IPR), Post-Grant Review (PGR), and Derivation Proceedings	1.5 million	\$60 million

The major patent-related categories account for about 55 million hours annually; at an average rate for attorneys and paralegals of \$300 per hour, this comes to about \$16 billion per year.

### **Regulatory Flexibility Act**

The Regulatory Flexibility Act (RFA)<sup>19</sup> protects small businesses from excessively burdensome regulation. The RFA does not require agencies to minimize economic impacts, but only to account for them. The RFA applies to any rule that requires notice and comment under “5 U.S.C. § 553 or any other law”—which leads some agencies to avoid notice and comment. For any covered rule, the agency must certify that the rule will not “have a significant economic impact on a substantial number of small entities,” and support that certification with an analysis.<sup>20</sup> If the agency cannot so certify, the agency must publish a “regulatory flexibility analysis,” which describes the burdens that the rule will place on small entities, and efforts the agency has taken to minimize impacts on small entities. The RFA is administered through the Small Business Administration Office of Advocacy, which advances the interests of small entities with other agencies, but again, only when specific problems are brought to its attention.

### **Equal Access to Justice Act**

The Equal Access to Justice Act<sup>21</sup> creates a presumption in favor of awarding attorneys’ fees to most individuals and small entities that prevail in suits against the government, if at least one issue in the government’s case is “not substantially justified.”

### **Executive Order 12,866**

Executive Order 12,866<sup>22</sup> requires benefit-cost analysis for any new regulation that is “economically significant,” which is defined as having “an annual effect on the economy of \$100 million or more or adversely affect[ing] in a material way the economy, a sector of the economy, productivity, competition, [or] jobs,” or creating an inconsistency with other law, or any of several other conditions.<sup>23</sup> That is, this is triggered by any regulation that affects 0.5 percent of the paperwork burden that the USPTO acknowledges, or a fraction of 1 percent of the total economic activity in the United States mediated by issued patents. The Executive Order directs that agencies may only regulate where the agency identifies a particular problem, considers alternatives and cost-assesses them all, chooses the most cost-effective regulation tailored to the problem, and sets forth the analysis in writing. An agency must consider overall social costs on the American people. The Executive Order directs agencies to consider all “economic effects,” not just fees paid to the agency or burdens cognizable under the PRA.

If a rule has an “economic effect” of at least \$100 million per year, an agency must conduct an introspective and analytical “regulatory impact analysis.”<sup>24</sup> OMB Circular A-4 instructs agencies in basic principles of regulatory economics that are to be considered in any regulatory action, analyses that ensure the agency meets its public objectives and structures its processes to maximize social welfare and minimize regulatory cost.

### **Unfunded Mandates Reform Act**

The Unfunded Mandates Reform Act<sup>25</sup> requires agencies to do benefit-cost analyses of rules vis-à-vis state, local, and tribal governments and the private sector.

### **Congressional Review Act**

The Congressional Review Act<sup>26</sup> requires an agency to send a report to Congress as each regulation is promulgated, and give Congress a 60-day review period. Congress may enact a joint resolution of disapproval, which if signed by the president renders the regulation null and void, as if it had never existed.

### **E-Government Act**

The E-Government Act of 2002<sup>27</sup> requires agencies to make use of the Internet. In particular, the act requires an agency to post on the Internet all “materials that by agency rule or practice are included in the rule making docket under [5 U.S.C. § 553].” That, in turn, includes all data, computer models, assumptions, and so on, relied on by the agency in formulating any proposed rule.

### **Information Quality Act**

The Information Quality Act (IQA), or Data Quality Act, and implementing guidance from the OMB,<sup>28</sup> require each federal agency to “ensur[e] and maximiz[e] the quality, objectivity, utility, and integrity of information (including statistical information) disseminated by the agency,” and to rely on quality information in reaching its decisions.

The IQA covers “influential information” that agencies use

in making decisions, such as in estimating the burden under the PRA and RFA. Though the IQA itself is a difficult vehicle for judicial review, if an agency action relies on “junk science” or other information that does not meet IQA standards, then a party with standing to bring an APA action can challenge the rule; with the IQA, defect may be used to support an “arbitrary and capricious” or “without observance of procedure required by law” claim under the APA.

**Bulletin for Agency Good Guidance Practices**

The Bulletin for Agency Good Guidance Practices<sup>29</sup> is implementing guidance under the IQA. Within 10 days of inauguration, President Trump reminded agencies that the Good Guidance Practices Bulletin is still in effect.<sup>30</sup> The Good Guidance Practices Bulletin requires as follows:

- If a guidance document may have \$100 million in annual economic effect (the USPTO admits that the MPEP is such a guidance document), amendments to that guidance must be run through notice and comment, and the agency must provide a “robust response to comments.”
- Agencies are to review their guidance documents for “mandatory language such as ‘shall,’ ‘must,’ ‘required’ or ‘requirement’” and remove such language “unless the agency is using these words to describe a statutory or regulatory requirement, or the language is addressed to agency staff.” Guidance documents are not to be applied as “law” against applicants<sup>31</sup>—the agency may not rely on guidance

to “foreclose consideration by the agency of positions advanced by private parties,” but must consider alternatives.

- When a guidance document uses mandatory language with respect to the agency or an agency employee, that language is binding against the agency or employee, and before departing from that language, the employee needs “appropriate justification and supervisory concurrence.”<sup>32</sup>
- “Each agency shall maintain on its website . . . a current list of its significant guidance documents in effect. . . . The agency shall provide a link from the current list to each significant guidance document that is in effect. . . . The list shall identify significant guidance documents that have been added, revised or withdrawn in the past year.”<sup>33</sup>
- Agencies are to train their employees in the above principles.

**Much of the Law of Agency Rule Making Turns on Classification**

Rules break into a number of taxonomic classes. Taxonomic classification of a rule determines the procedures that an agency must use to promulgate it, and the degree to which it binds the public. The taxonomy arises primarily under the APA. The consequent rule making procedures arise under the laws cataloged above. Most of these statutes add rule making procedures (above the APA) that apply or do not apply based on the taxonomic classification under the APA.

*Continued on page 51*

		◀ GREATER PROCEDURE, GREATER BINDING EFFECT	LESS PROCEDURE, LESS BINDING EFFECT ▶		ASYMMETRIC	
		legislative rules*	Chevron/Auer interpretations	interpretative rules	policy statement	housekeeping rules
substantive	substantive / legislative	Chevron/Auer interpretations of substantive law	substantive / interpretative	substantive / policy statement	housekeeping substantive rules	
	Any allocation of the burden of proof—such rules must be promulgated with “legislative” procedure if within the rule making grant of §§ 316(a)/326(a), and are invalid if grounded in § 2(b)(2)	Regulations that interpret IPR/ PGR statutes’ term “unpatentability” to implicate “broadest reasonable interpretation” rather than ordinary meaning.	MPEP § 201.11(II) (B), interpreting 35 U.S.C. § 120 to permit filing of a continuation application on the day that the parent issues. The elaboration of the CREATE Act in MPEP § 706.02(I)	37 C.F.R. § 1.75(e), stating that independent claims “should” be in Jepson format. PTO policy to accept an attorney’s statement to establish common ownership to gain benefit of pre-AIA § 103(c) or post-AIA § 102(c)	The examination guidelines for substantive patentability of design patents of MPEP § 1504.03. Chapter 2100 of the MPEP, and examination guidelines for § 101, to the extent they restate substantive law.	
procedural	procedural / legislative	Chevron/Auer interpretations of procedural laww	procedural / interpretative	procedural / policy statement	housekeeping procedural rules	
	Most of the familiar regulations of 37 C.F.R. Part 1 binding on applicants	In deciding an IPR petition, the Board may institute on less than all claims (assuming that § 314 indeed has an ambiguity or gap)	Elaboration of the refund statute and regulation, 35 U.S.C. § 42 and 37 C.F.R. § 1.26, in MPEP § 607.02	MPEP § 503, specifying PTO policy to accept a post card as sufficient, but not necessary, to show “to the satisfaction of the Director” that a mailing was lost	Much of 37 C.F.R. § 1.104, Chapter 2100 of the MPEP, and examination guidelines for § 101, to the extent they specify explanations that must be set forth in an Office Action.	

Each rule has two taxonomic characteristics, reflected in a two-row-by-five-column grid:

- Substantive vs. procedural (the subject matter of the rule); and
- Legislative rules vs. high-deference interpretations of a preexisting statute or regulation vs. low-deference interpretations vs. policy statements (how closely a rule is grounded in an underlying text, with an agency option to push a rule to higher categories by observing higher rule making procedure).

In the administrative law, decades of confusion arose out of lack of a standard vocabulary for this taxonomy. The word “substantive” was used for decades in two different senses: the inverse of “procedural,” and (less commonly) the inverse of “interpretative.” Sometimes both senses of “substantive” were used in the same paragraph, so it was all very confusing. In the last 10 years, courts have gradually sharpened their language, to use the word “substantive” *only* to mean the inverse of “procedural.” For the inverse of “interpretative,” the modern trend is to use the word “legislative.” That is the convention I will use—but this convention is fairly recent (and even in 2017, not uniform).

With that understanding, every rule fits into one cell of a two-dimensional grid. In general, the binding effect of a rule varies inversely with the procedure required to promulgate it. Rules toward the left of this table (legislative rules, promulgated with full necessary procedure) are binding against all parties, while rules toward the right, “policy statements,” may be promulgated with minimum procedure, but have no binding effect at all, and housekeeping rules bind only the agency, not the public. The two columns in between are likewise intermediate in both respects.

“Housekeeping rules” refer to rules directed to the agency or agency staff, as opposed to rules directed to the public. Housekeeping rules can be promulgated under a permissive grant (such as the Housekeeping Act) or a mandatory duty (such as 35 U.S.C. § 3(a)(2)(A) and § 3(b)(2)(A), which require that the USPTO Director and Commissioners to “provid[e] policy direction and management supervision” and “be responsible for the management and direction of all aspects of the activities of the Office”). The term embraces rules of “agency management” under § 553(a)(2), agency staff manuals and memoranda, etc. “Housekeeping rules” overlap with the APA categories—housekeeping rules may exist as legislative regulations, interpretative rules, or policy statements.

### “Substantive” Row vs. “Procedural” Row

Substantive rules come in two basic flavors (the top row of the table):

- Interpretative rules and statements of policy, which require only minimum procedure but have limited to no binding effect against courts and the public; and
- Binding rules, which require either full legislative procedure under the APA, PRA, RFA, and all the rest, or sufficient procedure to invoke *Chevron/Auer* deference

(where an agency’s interpretation of an ambiguous statute or rule acquires binding effect).

### Distinguishing “Substantive” from “Procedural” Rules

The distinction between “substantive” and “procedural” rules is not amenable to a simple bright-line definition, and the legal formulation varies somewhat circuit to circuit (though the outcome as applied to specific cases varies only little). More recent cases from the Federal Circuit and D.C. Circuit ask whether a rule “encodes a substantive value judgment or puts a stamp of approval or disapproval on a given type of behavior.”<sup>35</sup> Both Professor Pierce’s and Professor Lubbers’s treatises note the difficulty in drawing the line, provide lengthy expositions of the law in various circuits at various times, and attempt to synthesize the law.<sup>36</sup> Case outcomes turn on this definition, so agencies and parties put substantial litigation effort into characterizing rules that are in dispute.

A few patterns are clear. Any assignment of the burden of proof is substantive.<sup>37</sup> A rule that facially appears to be “procedural” but preempts so many procedural options that a party is effectively denied any hearing at all can be substantive. If a collection of procedural rules each appears innocuously “procedural” but cumulatively change “the very character” of a proceeding, the collection may be substantive.

### Procedural Requirements for Promulgation of Substantive Rules

Unless a “substantive” rule qualifies for the “interpretative” or “policy statement” exceptions of § 553(d)(2) and the agency is willing to surrender binding effect, all substantive rules must go through “legislative rule” notice and comment. If an agency skips notice and comment, PRA clearance, or any of the other statutory requirements (for example, a rule promulgated through adjudication), then the rule can *only* be valid under the “interpretative” or “policy statement” exceptions, and under those two exceptions, the rule lacks binding effect against the public. So any substantive rule that an agency intends to bind with force of law must go through notice and comment.<sup>38</sup>

### Procedural Rule Making—Notice and Comment for Patent Rules

For almost all agencies, § 553(b)(A) provides an exception from notice and comment for “rules of agency organization, procedure, or practice.” Most agencies can promulgate procedural rules through mere 30-day publication under § 553(d).

However, § 553(d) recognizes that notice and comment may be required by statute, even for procedural rules. The only case I know of on the point, the 2008 *Tafas* case,<sup>39</sup> holds that 35 U.S.C. § 2(b)(2)(B) is such a statute, requiring the USPTO to use notice and comment even for its procedural rules.<sup>40</sup>

First, pre-1999 35 U.S.C. § 6 granted procedural rule making authority, and made no mention of § 553. When Congress amended the statute in 1999, the reference to § 553 was added—Congress does not ordinarily change statutory language without intending a change in effect. Second, a number

of other agencies have statutes similar to § 2(b)(2)(B), granting procedural rule making authority with only a blanket mention of § 553, and other agencies and courts have interpreted those statutes to require notice and comment.<sup>41</sup> Third, on appeal, the USPTO moved to dismiss *Tafas* on grounds of *mootness*, and to have the district court decision vacated. The Federal Circuit granted the mootness motion, but not the vacatur. When a party moves to dismiss for “mootness,” that party takes on an obligation to cease all challenged conduct and to make “*absolutely* clear that the allegedly wrongful behavior could not reasonably be expected to recur.”<sup>42</sup> By moving to dismiss for mootness, first principles of Article III adjudication dictate that the USPTO “absolutely” locked itself into notice and comment for procedural rules of binding effect.

And finally, for any rule (“rule” in the broadest sense, see endnote 4) that calls for paperwork submissions to the USPTO, the Paperwork Reduction Act has its own notice-and-comment requirement, *e.g.*, 44 U.S.C. § 3506(c)(2)(A); 5 C.F.R. § 1320.3(c)(4)(i). Most of the Patent Office’s procedural rules require notice-and-comment under the PRA.

Agencies have discretion to choose between rulemaking through statutory procedure or by common law adjudication, so long as no statute requires notice-and-comment—that is, only for rules that validly fit the “interpretative,” “statement of policy,” or “procedural” exceptions of § 553(b)(A), and that do not affect paperwork burden. However, by exercising that discretion, the agency accepts all the consequent limitations on agency authority.

Although the law appears clear, the USPTO has often advanced a position that it is governed by the § 553 default, not by the 1999 amendment, can ignore case law interpreting that amendment, can revoke the consequence of its own concession, and can ignore an adverse ruling on a motion it contested at the time. Effective advocacy is required to ensure that the USPTO complies with the law.

### **USPTO Implementation**

The USPTO’s recent compliance with rule making law has been less than satisfying,<sup>43</sup> and issues around procedural rule making have been particularly problematic. The USPTO’s Federal Register notices cite cases that have nothing to do with the propositions for which they are cited, and neglect to distinguish adverse precedent raised in notice-and-comment letters.<sup>44</sup> In addition, the USPTO regularly cites a 1948 paper for the proposition that “it is extremely doubtful whether any of the rules formulated to govern patent or trade-mark practice are other than ‘interpretive rules, general statements of policy, . . . procedure, or practice’”<sup>45</sup>—but of course the USPTO’s rules in 1948 are irrelevant to classification of regulations that the USPTO proposes today. All these issues have been raised in multiple public comments, in multiple contexts—the USPTO’s final rule making notices and submissions to the OMB have not answered these questions.

The USPTO’s approach to rule making creates abundant opportunities for parties who are aggrieved by invalidly promulgated regulations. For example, the USPTO’s persistent failure to address notice-and-comment questions, to explain its positions, or to distinguish adverse precedent are breaches

of its obligations under the APA, and divest the USPTO of whatever deference its decisions might otherwise enjoy.

So long as the USPTO follows the requirement for notice and comment, the USPTO satisfies the requirements of § 2(b)(2)(B) and § 553 for its procedural rules. Even for procedural rules, notice and comment is a useful checkpoint that agencies use to ensure compliance with all the other rule making statutes. Even if the Federal Circuit ends up disagreeing with me on the import of § 2(b)(2)(B), if a USPTO regulation is substantive (and not within special grants such as § 316(a) or § 326(a)), or the USPTO neglected compliance with other rule making law, a rule can still be invalidated.

### **“Chevron/Auer” Column: Formal Interpretations of Statutes or Regulations**

Every statute and regulation has some lingering ambiguity, and someone has to have authority to adopt some interpretation, and do so with a minimum of procedural delay. So the law grants every agency inherent authority to promulgate interpretative rules. By default, most interpretations slot into the “interpretative rule” category discussed below. However, if an interpretation satisfies a long list of criteria, then the interpretation is binding on parties, courts, and the agency itself, under *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.* (for agency interpretations of statute)<sup>46</sup> or *Auer v. Robbins* (for agency interpretations of regulations).<sup>47</sup> If the interpretation fails at least one of the criteria, then the interpretation falls into the category of “interpretative rule” which binds only the agency itself, and is entitled to, at most, *Skidmore* deference (see endnote 56).

Some agency interpretations are binding on parties and the courts, under *Chevron* deference:

Under the familiar two-step *Chevron* analysis, “[w]e always first determine ‘whether Congress has directly spoken to the precise question at issue.’” “We do so by employing the traditional tools of statutory construction: we examine the statute’s text, structure, and legislative history, and apply the relevant canons of interpretation.” “If we find ‘that Congress had an intention on the precise question at issue, that intention is the law and must be given effect . . . .’” If we conclude that “Congress either had no intent on the matter, or that Congress’s purpose and intent is unclear,” then we proceed to step two, in which we ask “whether the agency’s interpretation is based on a permissible construction of the statutory language at issue.”<sup>48</sup>

But an agency has to *earn* this deference; it is far from automatic. When an agency interprets its own organic statute (for *Chevron*) or a regulation that it promulgated (under *Auer*), and the interpretation meets *all* the following prerequisites, *only then* does the agency receive the high deference of *Chevron* or *Auer*:

- Under “*Chevron* step zero,” an agency only receives deference when interpreting a statute or rule within its delegated authority, and that it is charged with administering. For example, USPTO interpretations of substantive law are not entitled to *Chevron* deference, except when the USPTO acts pursuant to one of its narrow grants of such authority, such as § 316(a) and

§ 326(a). Similarly, USPTO interpretations of the APA and the like are ineligible.

- Under “*Chevron/Auer* step one,” an agency only earns high *Chevron/Auer* deference for an interpretation where there is an ambiguity or gap in the rule or statute.
- The interpretation or implementing regulation at issue must tend to resolve the precise ambiguity or fill the precise gap: overly imprecise rules or interpretations do not receive *Chevron/Auer* deference.
- High *Chevron/Auer* deference requires that the agency publish its interpretation with some degree of formality, including any procedural formalities that Congress specifies for agencies in general (such as the Paperwork Reduction Act), or specific to the agency—while full-blown notice and comment is not a prerequisite to *Chevron/Auer* deference, informal statements of agency interpretation are not entitled to *Chevron/Auer* deference.<sup>49</sup>
- Under “*Chevron/Auer* step two,” an agency interpretation only receives deference if it is a “reasonable” interpretation of the statutory language considered with statements of congressional intent, and is supported by a reasonable explanation.
- High *Chevron/Auer* deference requires some level of consistency by the agency.
- An agency can lose *Chevron/Auer* deference in a specific case if its procedures in that case were haphazard.
- *Chevron/Auer* only applies to an agency’s interpretations of a statute or rule reached on its own reasoned decisionmaking, not to interpretations of congressional intent or case law.

*Chevron/Auer* is entirely a creature of common law, not statutory law, and that common law has been changing rapidly. The Lubbers and Pierce treatises both note the multiple difficulties and complexities in the area. Though *Chevron* has been with us for over 30 years, at least three justices of the Supreme Court have questioned whether *Chevron* is a good rule, and a bill was introduced in the House of Representatives in early 2017 to legislatively overrule *Chevron*. Administrative law expertise can make a case-determinative difference by steering an interpretation into either the binding *Chevron/Auer* category or the nonbinding “interpretative” category.

### “Interpretative” Column and “Shortcut Procedure” Exception of § 553(b)

An “interpretative” rule sets out the agency’s interpretation of a statute or rule, without altering rights or obligations. Any interpretation that fails any one of the bullets prerequisite to a *Chevron/Auer* interpretation falls into this nonbinding category of “interpretative rule.”

#### Availability of the § 553(b) “Interpretative” Exception

The line for permissible exercise of the § 553(b) “interpretative” exception is blurry—courts and treatise writers uniformly complain about this (but as we’ll see, most of the ink spilled over the scope of the exception is irrelevant to case outcomes—most of these cases rise and fall on whether the agency tries to simultaneously claim binding effect and the “interpretative” exception). The most basic requirement

for the “interpretative” exception is that the agency “interpret” a validly promulgated law (statute or regulation), by following a recognizable interpretative path originally set out by the statute or regulation. An agency may promulgate an “interpretative” rule “only if the agency’s position can be characterized as an ‘interpretation’ of a statute or legislative regulation rather than as an exercise of independent policymaking authority.”<sup>50</sup> Mere “consistency” is insufficient.<sup>51</sup> Even “gap filling” can be beyond the scope of “interpretative” authority. An “interpretative” rule cannot create a new requirement, carve-out, or exception from whole cloth. If the rule changes “individual rights and obligations” (rather than resolving ambiguity), the rule requires legislative procedure.

For example, MPEP § 802.01, which “interprets” the key phrase “independent *and* distinct” of the restriction statute, 35 U.S.C. § 121, as “*or*” is an invalid attempt at “interpretative” rule making, because changing “*and*” (in 35 U.S.C. § 121 and 37 C.F.R. § 1.141(a)) to “*or*” (in MPEP § 802.01) cannot possibly be a valid exercise of “interpretative” authority. There are a host of similar provisions in the MPEP, and similar rules made up day to day by individual examiners and petition decision makers, that have no plausible grounding in “interpretation” of the text of a statute or regulation, or that are directly contrary to other law. These are well beyond any “interpretative” authority.

An agency may promulgate interpretative rules outside the scope of its rule making authority. Where an agency can only issue legislative rules pursuant to an express grant of authority from Congress, an agency may (and is encouraged to) issue nonbinding interpretations to guide the public.

If an agency elects the “interpretative” shortcut, there are almost no procedural requirements—the decision maker must ensure that there is indeed an ambiguity that is not resolved by any binding law, but if the ambiguity exists, the decision maker simply interprets as best he or she may. If the issue is outside the agency’s scope of rule making authority (for example, the definition of the term “new ground of rejection” or terms of art from the APA, which are defined by the courts under the administrative law,<sup>52</sup> or various terms of the PRA, for which OMB regulations provide operative definitions), the agency must follow the agency or courts that *do* have authority on that specific issue.

#### Consequence of the “Interpretative” Shortcut

In return for the privilege of bypassing rule making procedure, the agency risks loss of binding effect for an interpretative rule. “An agency issuing an interpretative rule . . . may well intend that its interpretation bind its own personnel and may expect compliance from regulated individuals or entities. Nonetheless, the agency cannot expect the interpretation to be binding in court; because it does not have the force of law, parties can challenge the interpretation.”<sup>53</sup> Many courts have characterized interpretative rules as only “hortatory” and “lacking force of law.”<sup>54</sup>

In proceedings before the agency, a party may advance alternative positions or interpretations, and the agency must address them, without relying on an interpretative rule as the last word.

On judicial review, invocation of the “interpretative” shortcut surrenders any claim to heightened *Chevron/Auer* deference.<sup>55</sup> A court should give *Skidmore* deference to a

well-reasoned interpretative rule, but no more than that<sup>56</sup>—courts regularly overturn “interpretative” rules.

Interpretative rules are binding on agency employees, including its administrative law judges (ALJs).<sup>57</sup> If an interpretative rule (say, a provision of the MPEP, or the PTAB trial guidelines) sets a “floor” under the rights of a party, individual employees have no discretion to back out of the agency’s interpretation or create ad hoc exceptions adverse to the party.

### **Agency Misuse of the “Interpretative” Exception**

An agency that wishes to assert an authoritative interpretation of a statute or regulation (within its rule making authority) is always free to dress that interpretation in full procedure. That interpretation acquires force of law as either a legislative rule or a *Chevron/Auer* interpretation. However, the overwhelming majority of “interpretative” rule cases arise when an agency elected to take the shortcut, and either “interpreted” beyond the words of the underlying statute or regulation, or tries to attach binding effect to that rule.

Courts do not allow agencies to have things both ways—if an agency treats a rule as binding on the public and there is no wording in the underlying statute or regulation to “interpret,” the agency surrenders any claim to the “interpretative” exemption. Under a frequently recurring pattern,<sup>58</sup> the agency issues a pronouncement (a staff manual, memo, precedential decision, or one-off adjudicative decision) that goes beyond the wording of the underlying statute or regulation, without addressing the statutory procedures necessary for a binding rule. Nonetheless, the agency treats its rule as binding, and rules against a member of the public based on that “rule.” The affected member of the public sues the agency to be relieved of the obligation to comply with the “rule.” The agency moves to dismiss, arguing either “that isn’t an APA ‘rule’ because we didn’t put it in the Code of Federal Regulations, and thus there is no jurisdiction for judicial review,” or else that it didn’t need to go through notice and comment because of the “interpretative” exception. It’s a well-worn path. An agency’s reliance on the “interpretative” exception per se is seldom a breach of the law—but the agency’s attempt to *enforce* an insufficiently promulgated rule always is. So long as the plaintiff has a knowledgeable lawyer, the agency almost always loses the interpretative rule issue. Then, if there is a remaining underlying statute or regulation (that is, if the “interpretation” was not a rule made up of whole cloth), the court construes the underlying rule (under *Skidmore* deference to the agency), and the final outcome of the case turns on that judicial interpretation.

Courts give essentially no weight to an agency’s characterization of a rule, but instead review the characterization *de novo*, giving heaviest weight to actual agency practice—if the wording or agency practice treats the rule as binding, or there is no underlying test in a statute or regulation, then the rule is ineligible for the “interpretative” shortcut.

The provisions of the MPEP describing how “the satisfaction of the Director” of 35 U.S.C. § 41(c), § 111, and § 122 may be met to show that delay or abandonment were unintentional or unavoidable are valid “interpretative” rules—and therefore binding *on the agency*. If a petitioner meets these provisions, then the USPTO must grant the petition. But the

USPTO may not apply an interpretative rule in the MPEP as a binding “ceiling” *against the public*—the USPTO *must* entertain petitions that present alternative showings that might meet the “satisfaction of the Director.”

### **“Statements of Policy” Column**

Policy statements are “tentative intentions,” nonbinding rules of thumb, suggestions for conduct, and tentative indications of an agency’s hopes. Policy statements have no binding effect. A policy statement “genuinely leaves the agency and its decision-makers free to exercise discretion,” and “a statement of policy may not have a present effect: a ‘general statement of policy’ is one that does not impose any rights and obligations.”<sup>59</sup>

“Statements of policy” are even weaker statements than “interpretative” rules. Agencies use them to express agency preferences (for example, the USPTO’s preference for *Jepson* claims in 37 C.F.R. § 1.75(e)), but with no binding effect. Agencies likewise use “policy statements” to offer a unilateral quid pro quo or set a floor for agency procedure (“If you the public do X, we the agency promise favorable outcome Y. If you don’t do X, you can still convince us to do Y by arguing the controlling law.”).

Agency policy statements are not binding on courts, and therefore receive no *Chevron* deference, not even weak *Skidmore* deference.<sup>60</sup> In litigation, agencies fairly often make the same mistake with “policy statements” as with “interpretative rules”—they admit they failed to follow rule making procedure, and assert the “statements of policy” exception of § 553(b)(A) and (d)(2) as a defense. And of course courts respond by invalidating any binding effect of the rule.

### **“Housekeeping Rules”—The Agency Binds Itself**

Federal agencies are encouraged—and in many cases required—to issue instructions to their employees so that agency employees can make accurate decisions, the public can know how the agency works, and both sides can interact efficiently. The general rule—confirmed in at least a half dozen decisions of the Supreme Court, and many hundreds in the federal courts of appeal, with no appellate court exception that I know of—is that once the agency issues rules to its own employees using mandatory language, the agency binds its employees *even if the document is not published*. The public is entitled to rely on those housekeeping rules. Employee action in violation of a housekeeping rule is “void” or “illegal and of no effect.”<sup>61</sup>

Regulations that use mandatory language directed to employees are absolutely binding. Agencies have no discretion whatsoever to depart or create carve-outs to the detriment of the public, whether as one-offs or systematically in published guidance, except by promulgating replacement regulations with full rule making formalities.<sup>62</sup>

When the USPTO issues nonregulatory guidance (such as the MPEP or examining guidelines) that uses mandatory language to state obligations of agency employees with respect to “important procedural benefits” to applicants (including the classic stuff of the APA procedural obligation to explain—showings that must be made, reasoning steps that must be employed, etc.), employees are bound. The public is entitled to rely on employees’ observing the guidance.<sup>63</sup> An agency is free to modify its housekeeping guidance with

the same ease and lightweight formality with which it was initially promulgated, but that has to be done at the agency level—individual employees have no authority to create ad hoc carve-outs or exemptions, no matter how sound the justification provided by that individual employee.<sup>64</sup>

On the other hand, agencies are free to relax rules in favor of lenity toward a party: “It is always within the discretion of . . . an administrative agency to relax or modify its procedural rules adopted for the orderly transaction of business before it when in a given case the ends of justice require it.”<sup>65</sup> Cases that state this freedom to relax reiterate that it is an asymmetric freedom: agencies may not relieve themselves of rules intended primarily “to confer important procedural benefits upon individuals” in the face of otherwise unfettered discretion.<sup>66</sup>

Housekeeping rules operate under multiple asymmetries. To bind the public, an agency must satisfy all applicable rule making statutes that protect the public, while the agency can bind its employees at the stroke of a pen (notice the light procedure granted by § 553(a)(2)). Amendments to “recognize[] an exemption or relieve[] a restriction” can be promulgated on simple notice; rules to raise burdens on the public must go through statutory rule making procedure (e.g., 44 U.S.C. § 3507(a)). The agency has great discretion to grant one-off waivers in favor of the public, but none in favor of itself. ■

## Endnotes

1. David Boundy, *Administrative Law Observations on Cuozzo Speed Technologies v. Lee*, 9 LANDSLIDE, no. 3, Jan.–Feb. 2017 (suggesting that although patent law arguments were losers in the Supreme Court *Cuozzo* case, administrative law arguments likely would have been winners).

2. *Chrysler Corp. v. Brown*, 441 U.S. 281, 303 (1979) (stating that any regulation promulgated “must conform with any procedural requirements imposed by Congress. . . . [A]gency discretion is limited not only by substantive, statutory grants of authority, but also by the procedural requirements which ‘assure fairness and mature consideration of rules of general application’”).

3. *In re Bogese*, 303 F.3d 1362, 1367–68 (Fed. Cir. 2002), and *Star Fruits S.N.C. v. United States*, 393 F.3d 1277, 1282 (Fed. Cir. 2005), mention a mysterious “inherent authority” of the USPTO. I know of no statutory or Supreme Court authority supporting any “inherent authority” of any scope remotely similar to that claimed by the USPTO or mentioned in these cases (see the section on the “Interpretative Column and Shortcut Procedure”). The 1999 amendment to 35 U.S.C. § 2(b)(2)(B) explicitly confined the USPTO’s rule-making authority to exercise within the Administrative Procedure Act—I see no plausible argument that any “inherent authority” of the scope suggested in *Bogese* or *Star Fruits* existed before, or can survive after, that 1999 amendment.

4. *Batterton v. Marshall*, 648 F.2d 694, 700–01 (D.C. Cir. 1980).

5. Chapter 7, 5 U.S.C. §§ 701–706, specifies ground rules for judicial review of agency action.

6. 31 U.S.C. §§ 9701 *et seq.*; OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, OMB CIRCULAR NO. A-25, USER CHARGES (1993). Both the Supreme Court and D.C. Circuit have noted that Circular A-25 is an authoritative interpretation of the IOAA.

7. See Ron D. Katznelson, *The U.S. Patent Office’s Proposed Fees under the America Invents Act—Part I: The Scope of the Office’s*

*Fee-Setting Authority*, 85 PAT. TRADEMARK & COPYRIGHT J. 206 (2012).

8. 44 U.S.C. §§ 3501–3520; 5 C.F.R. pt. 1320, especially §§ 1320.5, .8, .9, .11.

9. *Dole v. United Steelworkers of Am.*, 494 U.S. 26, 33 (1990).

10. 44 U.S.C. § 3506(c)(1)(A); 5 C.F.R. § 1320.8(a)(1).

11. 44 U.S.C. § 3506(c)(3)(A); 5 C.F.R. §§ 1320.3(l), .9(a).

12. 44 U.S.C. § 3506(c)(3)(C); 5 C.F.R. §§ 1320.5(d)(1), .9(c).

13. 44 U.S.C. § 3506(c)(3)(D); 5 C.F.R. § 1320.9(d).

14. 44 U.S.C. § 3506(c)(3)(B); 5 C.F.R. § 1320.9(b).

15. 5 C.F.R. § 1320.5(d)(1)(iii).

16. *E.g.*, 5 C.F.R. § 1320.10 (applying the PRA to “collections of information, other than those contained in proposed rules . . . or in current rules”).

17. 44 U.S.C. §§ 3507(a), 3512; 5 C.F.R. § 1320.6.

18. Note the anomaly—the USPTO estimates that prosecution costs are only 7 percent of the burden of new applications. This appears to be a shortcut or underestimate as discussed in the preceding paragraph. If terms in the PRA are interpreted under the OMB’s definitions stated in 5 C.F.R. part 1320, I see no plausible support for this low number.

19. 5 U.S.C. §§ 601–612.

20. *Id.* § 602.

21. *Id.* § 504 (fees for intra-agency proceedings); 28 U.S.C. § 2412 (fees for court proceedings).

22. Exec. Order No. 12,866, 58 Fed. Reg. 51,735 (Oct. 4, 1993). Additional guidance for agencies in complying with their obligations under the Executive Order may be found at the OMB Office of Information and Regulatory Affairs website, <https://obamawhitehouse.archives.gov/omb/oir>. Of particular importance is OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, OMB CIRCULAR NO. A4, REGULATORY ANALYSIS (2003).

23. The 2006 continuations, claims, and information disclosure statement rules were split into three separate rule packages, and the estimate for each of the three was under \$100 million.

24. Surprisingly, the USPTO has performed a regulatory impact analysis only twice in history, but neither analyzes the proposed regulation in the outcome-neutral, analytical way directed by Circular A4.

25. 2 U.S.C. §§ 1532 *et seq.*

26. 5 U.S.C. §§ 801 *et seq.*

27. Pub. L. No. 107-347, 116 Stat. 2899 (codified at 44 U.S.C. § 3501 note).

28. Pub. L. No. 106-554, § 515, 114 Stat. 2763 (2000) (codified at 44 U.S.C. §§ 3504 note, 3516 note); Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies, 67 Fed. Reg. 8452 (Feb. 22, 2002); *Information Quality Guidelines*, USPTO, <http://www.uspto.gov/web/offices/ac/ido/ifoqualityguide.html> (last modified Jan. 13, 2015).

29. OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, OMB BULL. NO. 07-02, FINAL BULLETIN FOR AGENCY GOOD GUIDANCE PRACTICES (2007), *reprinted in* 72 Fed. Reg. 3432 (Jan. 25, 2007).

30. Memorandum from Dominic J. Mancini, Acting Adm’r, Office of Info. & Regulatory Affairs, to Regulatory Policy Officers at Executive Departments and Agencies, Interim Guidance Implementing Section 2 of the Executive Order of January 30, 2017, Titled “Reducing Regulation and Controlling Regulatory Costs (Feb. 2, 2017),

<https://www.whitehouse.gov/the-press-office/2017/02/03/interim-guidance-implementing-section-2-executive-order-january-30-2017> (“Agencies should continue to adhere to OMB’s 2007 Memorandum on Good Guidance Practices.”).

31. In these two respects, the Good Guidance Bulletin is merely a restatement of the law arising under the APA, Housekeeping Act, etc.

32. OMB BULL. No. 07-02, *supra* note 29, § II(1)(b).

33. *Id.* § III(1).

34. Rules that should have been promulgated under statutory “legislative” procedure but weren’t are invalid.

35. *Tafas v. Doll*, 559 F.3d 1345, 1355 (Fed. Cir.), *vacated*, 328 F. App’x 658 (Fed. Cir. 2009); *James V. Hurson Assocs., Inc. v. Glickman*, 229 F.3d 277, 281–82 (D.C. Cir. 2000) (elimination of face-to-face hearings is “procedural” because it does not “encode the substantive value judgment” for activities outside the agency).

36. JEFFREY S. LUBBERS, *A GUIDE TO FEDERAL AGENCY RULE-MAKING* pt. II, § 1(D)(2) (4th ed. 2006); RICHARD J. PIERCE, *ADMINISTRATIVE LAW* § 6.5 (5th ed. 2010).

37. *Dir., Office of Workers’ Comp. Programs, Dep’t of Labor v. Greenwich Collieries*, 512 U.S. 267, 271, 275–81 (1994).

38. Notice and comment starts a row of procedural dominos. It triggers applicability of Executive Order 12,866 and the RFA. If a rule calls for submission of paperwork, any “rule of general applicability” (whether promulgated through notice and comment or anything else) triggers the need for clearance under the PRA. Agencies have large incentives to shortcut.

39. *Tafas v. Dudas*, 541 F. Supp. 2d 805, 812 (E.D. Va. 2008), *criticized by Tafas v. Doll*, 559 F.3d at 1352 n.3, *district court reinstated sub nom. Tafas v. Kappos*, 586 F.3d 1369, 1371 (Fed. Cir. 2009).

40. Several other cases have been to the Federal Circuit on the “interpretative” issue, but they have no bearing on the “procedural” rule making issue.

41. For example, 9 U.S.C. § 306 governs procedural rules of an arbitration commission in the State Department, and uses the phrase “by regulation in accordance with section 553 of title 5.” The State Department treats this as a mandatory obligation to use notice and comment for procedural rules. *E.g.*, Office of the Assistant Legal Adviser for Private International Law; InterAmerican Convention on International Commercial Arbitration Rules of Procedure, 64 Fed. Reg. 53,632 (proposed Oct 4, 1999) (“Pursuant to [9 U.S.C. § 306], the rulemaking procedures of [5 U.S.C. § 553] apply to any determination to effectuate such a modification or amendment within the United States. In accordance with those procedures, notice must be published in the Federal Register, time for comment provided, and the final rule published for 30 days before the rule may become effective.”).

42. *Adarand Constructors, Inc. v. Slater*, 528 U.S. 216, 221–22 (2000).

43. Richard Belzer, a former OMB official who spent 10 years overseeing agency rule making, analyzes the USPTO’s “substandard” compliance with rule making law in April 2011 and April 2012 comment letters to the USPTO, available at <https://www.uspto.gov/sites/default/files/patents/law/comments/belzer14apr2011.pdf> and [https://www.uspto.gov/sites/default/files/aia\\_implementation/comment-regulatory-checkbook.pdf](https://www.uspto.gov/sites/default/files/aia_implementation/comment-regulatory-checkbook.pdf).

44. For example, a 2010 Notice of Proposed Rulemaking cited *Merck & Co. v. Kessler*, 80 F.3d 1543 (Fed. Cir. 1996), for the proposition that the USPTO need not use notice and comment for procedural rules. 75 Fed. Reg. 69,828, 69,843 (Nov. 15, 2010). But nothing remotely like the issue is mentioned in *Merck*. Despite the error being pointed out in public

comment letters, the USPTO did not correct the error in the final rule notice. 76 Fed. Reg. 72,270, 72,291 (Nov. 22, 2011). Recent rule making notices cite *Cooper Technologies Co. v. Dudas*, 536 F.3d 1330, 1336 (Fed. Cir. 2008)—but *Cooper* only discusses *interpretative* rules (which of course do not require notice and comment), and decides nothing relating to *procedural* rules, the proposition for which the USPTO cites it.

45. Caspar W. Ooms, *The United States Patent Office and the Administrative Procedure Act*, 38 TRADEMARK REP. 149 (1948), *cited in* 76 Fed. Reg. at 72,291.

46. 467 U.S. 837 (1984).

47. 519 U.S. 452, 461 (1997).

48. *Cooper*, 536 F.3d at 1337–38 (citations omitted) (quoting *Chevron*, 467 U.S. at 843 n.9, 843–44). The inquiries under *Chevron* and *Auer* are slightly different. But the analytical similarities overshadow the differences. For this short article, we will gloss over the differences, and treat *Chevron* and *Auer* together.

49. *United States v. Mead Corp.*, 533 U.S. 218, 230–31 (2001) (a U.S. Customs ruling letter is not entitled to *Chevron* deference); *Christensen v. Harris Cty.*, 529 U.S. 576, 587 (2000) (agency rules promulgated without hearing or notice and comment are entitled to only *Skidmore* deference).

50. LUBBERS, *supra* note 36, at pt. II, § 1(D)(3)(e), at 103. The two leading cases on the dividing line between “interpretative” and “legislative” rules from the D.C. Circuit are *Am. Mining Congress v. Mine Safety & Health Admin.*, 995 F.2d 1106, 1112 (D.C. Cir. 1993), and *Gen. Motors Corp. v. Ruckelshaus*, 742 F.2d 1561, 1565 (D.C. Cir. 1984) (en banc) (Wald, J., joined by Ginsberg and Scalia, JJ.). One oft-cited paper is John Manning, *Nonlegislative Rules*, 72 GEO. WASH. L. REV. 893, 916 (2004), and both the Pierce and Lubbers treatises have extensive discussions.

51. *Mission Group Kan., Inc. v. Riley*, 146 F.3d 775, 781 (10th Cir. 1998) (quoting Richard A. Posner, *The Rise and Fall of Administrative Law*, 72 CHI.-KENT L. REV. 953, 962 (1997)).

52. *In re Stepan Co.*, 660 F.3d 1341, 1345 (Fed. Cir. 2011) (“[T]he [US]PTO’s regulatory interpretation is due no deference in view of the agency’s statutory obligation under the Administrative Procedure Act (‘APA’) to provide prior notice to the applicant of all ‘matters of fact and law asserted’ prior to an appeal hearing before the Board. 5 U.S.C. § 554(b)(3). Allowing the Board unfettered discretion to designate a new ground of rejection—when it relies upon facts or legal argument not advanced by the examiner—would frustrate the notice requirements of the APA.”).

53. LUBBERS, *supra* note 36, at pt. II, § 1(D)(3)(c), at 82.

54. *Chrysler Corp. v. Brown*, 441 U.S. 281, 315 (1979) (holding that after an agency characterizes a rule as “interpretative,” “a court is not required to give effect to an interpretative regulation”).

55. LUBBERS, *supra* note 36, at pt. II, § 1(D)(3)(c), at 84; PIERCE, *supra* note 36, § 6.4, at 435.

56. *Skidmore v. Swift & Co.*, 323 U.S. 134, 140 (1944) (“We consider that the rulings, interpretations and opinions of the [agency], while not controlling upon the courts by reason of their authority, do constitute a body of experience and informed judgment to which courts and litigants may properly resort for guidance. The weight of such a judgment in a particular case will depend upon the thoroughness evident in its consideration, the validity of its reasoning, its consistency with earlier and later pronouncements, and all those factors which give it power to persuade, if lacking power to control.”).

57. *Yale-New Haven Hosp. v. Leavitt*, 470 F.3d 71, 80 (2d Cir. 2006) (noting that “an interpretative rule binds an agency’s

employees, including its ALJs”).

58. *E.g.*, *Appalachian Power Co. v. Env'tl. Protection Agency*, 208 F.3d 1015, 1020–21 (D.C. Cir. 2000).

59. *Cmty. Nutrition Inst. v. Young*, 818 F.2d 943, 946 (D.C. Cir. 1987); *Brock v. Cathedral Bluffs Shale Oil Co.*, 796 F.2d 533, 536–37 (D.C. Cir. 1986) (Scalia, J.).

60. *Bechtel v. FCC*, 10 F.3d 875 (D.C. Cir. 1993) (finding that an agency policy statement is not due even *Skidmore* deference); *Vietnam Veterans of Am. v. Sec'y of the Navy*, 843 F.2d 528 (D.C. Cir. 1988) (holding that policy statements do not bind courts).

61. *Vitarelli v. Seaton*, 359 U.S. 535, 545 (1959) (holding that an agency action was “illegal and of no effect” because the agency’s dismissal “fell substantially short of the requirements of the applicable department regulations”); *Service v. Dulles*, 354 U.S. 363, 386–88 (1957) (finding that an unpublished manual was binding, and violation of that manual was a ground for setting aside agency action).

62. *Berkovitz v. United States*, 486 U.S. 531, 544 (1988) (concluding that “[t]he agency has no discretion to deviate” from the procedure mandated by its regulatory scheme); OMB BULL. NO.

07-02, *supra* note 29.

63. *In re Kaghan*, 387 F.2d 398, 401 (C.C.P.A. 1967) (“[W]e feel that an applicant should be entitled to rely not only on the statutes and Rules of Practice but also on the provisions of the MPEP in the prosecution of his patent application.”).

64. OMB BULL. NO. 07-02, *supra* note 29, § II(1)(b).

65. *Am. Farm Lines v. Black Ball Freight Serv.*, 397 U.S. 532, 539 (1970).

66. *City of Fredericksburg, Va. v. Fed. Energy Regulatory Comm'n*, 876 F.2d 1109, 1112 (4th Cir. 1989) (“*American Farm Lines* held that an administrative agency has discretion to relax or modify internal housekeeping regulations . . . . However, the exception announced in *American Farm Lines* does not apply if the agency regulations were intended ‘to confer important procedural benefits upon individuals’ or other third parties outside the agency. The applicability *vel non* of *American Farm Lines* thus turns on whether the regulation . . . was designed to aid [the agency] or, instead, to benefit outside parties.” (citations omitted)).

May/June 2018

Volume 10 • Number 5

# LANDSLIDE®

 A Publication of the ABA Section of Intellectual Property Law

# brave new law

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- Appellate Standing at the Federal Circuit
- Early Adjudication of Potentially Dispositive Issues at the USITC
- Economic Assessment of Duplication in PTAB Proceedings

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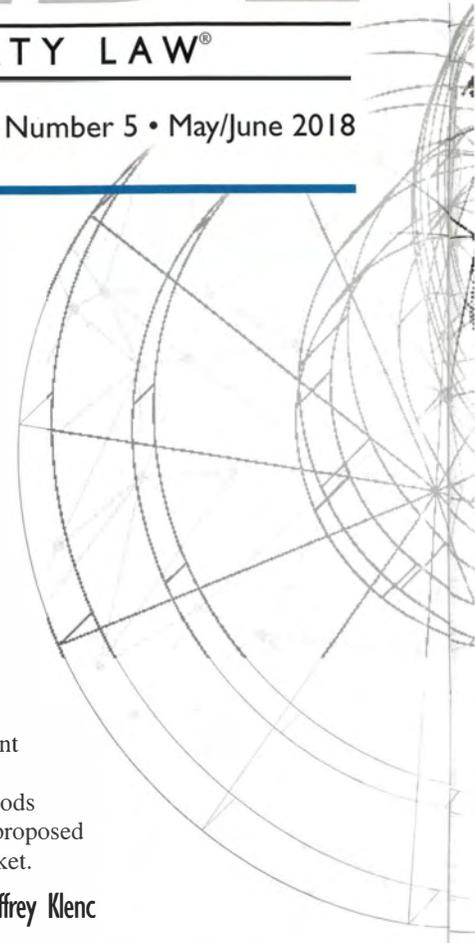
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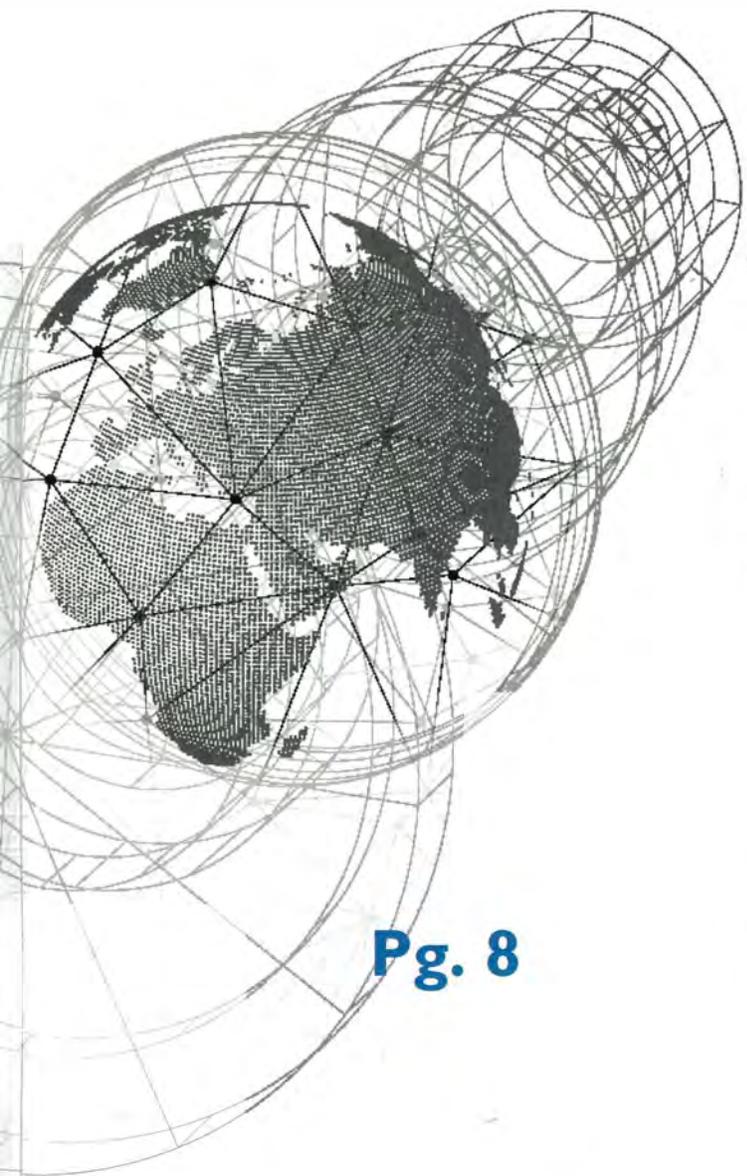
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# THE PTAB IS NOT AN ARTICLE III COURT, PART 2

## ***AQUA PRODUCTS v. MATAL* AS A CASE STUDY IN ADMINISTRATIVE LAW**

BY DAVID BOUNDY AND ANDREW B. FREISTEIN

**A***qua Products, Inc. v. Matal*<sup>1</sup> illustrates a principle raised in two recent articles in *Landslide*<sup>®2</sup>—not every patent case is a *patent law* case. Aqua’s briefs presented the case as statutory interpretation of the Patent Act. The Federal Circuit en banc ruled against Aqua’s position. However, the court threw Aqua a remarkable lifeline: despite near-complete silence in Aqua’s briefs on administrative law principles, seven judges in three opinions sua sponte decided the case on those grounds. Only because of that lifeline did the court decide in Aqua’s favor—the U.S. Patent and Trademark Office’s (USPTO’s) attempt to give rulemaking authority to the Patent Trial and Appeal Board (PTAB) and the PTAB’s attempt to make law by mechanisms outside the Administrative Procedure Act (APA) were invalid.

*Aqua Products* concerned the authority of the PTAB, in deciding a motion to amend claims during an inter partes review (IPR), to place on the patent owner the initial burden to explain patentability of proposed amended claims over prior art. This rule had not been promulgated through notice and comment, as required by the APA. Instead, the PTAB acted by nonprecedential decision, in *Idle Free Systems, Inc. v. Bergstrom, Inc.*<sup>3</sup> At the Federal Circuit, one majority found that the *Idle Free* burden-allocation rule was not foreclosed by the patent law, and thus satisfied “step one” of the *Chevron* test for judicial deference. However, a different majority, in three opinions, found that the PTAB did not comply with its *procedural obligations for rulemaking*, and thus the *Idle Free* rule was invalid.

*Aqua Products* is an example of a case that is really tough on patent law grounds but a clear winner on administrative law grounds. This article looks at issues presented in *Aqua Products* and explains various administrative law principles pertinent to PTAB proceedings, along with opportunities for parties to present the law to the PTAB and to courts to guide better decision-making. The article also suggests several reforms that might be adopted by the PTAB to promote procedural regularity.

### **The IPR/PGR Regulations, *Idle Free*, *MasterImage*, and Allocation of Burden**

A century of ex parte patent prosecution establishes that the act of “amending claims” and “establishing patentability” are distinct steps, with different burdens. An applicant may amend claims relatively freely (limited by “final rejection” practice under 37 C.F.R. § 1.116). Applicants have the burden of explaining 35 U.S.C. § 112(a) support for claim amendments; many voluntarily provide explanations with their amendments. However, the patent examiner has the initial burden of production (for both evidence and explanation) to address patentability over the art, and the ultimate burden of persuasion. This allocation makes intuitive sense—allocating the procedural initial burden to the party who must make the affirmative substantive showing avoids requiring a party to prove a negative. An amendment that is “entered” only puts claims in play—the claims do not issue without the examiner’s approval.

Conduct of IPRs is governed by 35 U.S.C. § 316. Subsection (e) provides that “the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence.” Subsection (d) provides a right for the patent owner to file a motion to amend claims, with several enumerated conditions analogous to those of applicants in *ex parte* prosecution, but does not demand any specific supporting showings and is silent on burden of proof for the conditions. Subsection (a) (9) delegates broad rulemaking authority to the USPTO: “The Director shall prescribe regulations . . . setting forth standards and procedures for allowing the patent owner to move to amend the patent . . .” Overall, § 316 tracks the *ex parte* allocation of burdens for amendments—not locking down all possible ambiguity, but enough that any other reading comes as a surprise.

When the USPTO promulgated its IPR and PGR (post-grant review) implementing regulations in August 2012, the regulations tracked traditional *ex parte* prosecution principles. Entry of an “amended claim” and “determination of patentability” are distinct legal concepts.<sup>4</sup> The IPR regulations set three elements for a motion to amend:

1. The amendment must “respond to a ground of unpatentability involved in the trial” (37 C.F.R. § 42.121(a)(2)(i))—the regulation does not require that the “response” be explained.
2. The amendment may not “seek to enlarge the scope of the claims . . . or introduce new subject matter” (37 C.F.R. § 42.121(a)(2)(ii)). Likewise, the regulation only specifies content of claims, without calling for an explanation.
3. The amended claims must have § 112(a) support (37 C.F.R. § 42.121(b))—this is the only element for which the regulation calls for compliance by the amended claims *and* for the patent owner to explain.<sup>5</sup>

For any motion, 37 C.F.R. § 42.20 provides that “the moving party has the burden of proof” but does not specify *what elements* have to be proved. Nothing in the notice of proposed rulemaking (NPRM) (or final rule notice, for that matter) suggests that § 42.20, as applied to motions to amend, somehow adds another element or explanation not explicitly set forth in § 42.121 in order for the amendment to be entered. The NPRM itself does not mention “patentably distinct features”—the public had no notice that the issue was even in play, let alone an opportunity to comment on it.

Among the materials the USPTO published with the NPRM, the closest antecedent to the *Idle Free* rule is in the “Practice Guide for Proposed Trial Rules,” that the patent owner “should clearly state the patentably distinct features for proposed substitute claims.”<sup>6</sup> At rule proposal, the USPTO never suggested a patentability showing over the art was required; rather, the proposed Trial Practice Guide only

recommends this statement as a means to comply with elements that are expressly stated in the proposed regulation, to “aid the Board in determining whether the amendment narrows the claims and if the amendment is responsive to the grounds of unpatentability involved in the trial.”

In the final rule notice, in August 2012, the preamble discussion of § 42.121 reiterated that the above list—three elements, one explanation—is exhaustive,<sup>7</sup> and contrasted these elements for amendment against the burden of proof on final patentability.<sup>8</sup> The final rule notice further stated that “[t]he motion [to amend claims] will be entered so long as it complies with the timing and procedural requirements.”<sup>9</sup> In the final Trial Practice Guide, the USPTO proposed an example motion to amend—the example tracks the “three elements, one explanation,” with no mention of patentability over the art.<sup>10</sup> The “clearly state patentably distinct features” statement is carried over from the proposed Trial Practice Guide into the final Guide as a “should” recommendation, not a “must.”

There is one mislaid sentence in the final rule notice. In a comment on “policy” in the “umbrella rule” notice, tens of pages away from the discussion of either the IPR or PGR specific “motion to amend” rules, the sentence reads:

In the event that a patent owner files a motion to amend the claims, the patent owner must include a statement of the precise relief requested and a full statement of the reasons for the relief requested, including a detailed explanation of the significance of the amended claims (*e.g.*, a statement that clearly points out the patentably distinct features for the proposed new or amended claims).<sup>11</sup>

Note that this sentence—which is only in the comments, not the regulations—does not require a *showing*, only an identification of a “feature.” The regulation does not expressly or even implicitly support any burden on the patent owner.

The PTAB’s first decision on a motion to amend came nine months into the IPR regime. *Idle Free*<sup>12</sup> explains that § 42.121(a)(2)(i) and (ii) requires that substitute claims “respond to a ground of unpatentability involved in the trial” and not “seek to enlarge the scope of the claims.” *Idle Free* then notes that § 42.121(b) requires showing § 112(a) support for the amendment. Each of these requirements properly flows from the “three elements, one explanation” regulatory text itself.

Then, the PTAB announced a new element imposed on the patent owner:

For each proposed substitute claim, *we expect* a patent owner: (1) in all circumstances, to make a showing of patentable distinction over the prior art; (2) in certain circumstances, to make a showing of patentable distinction over all other proposed

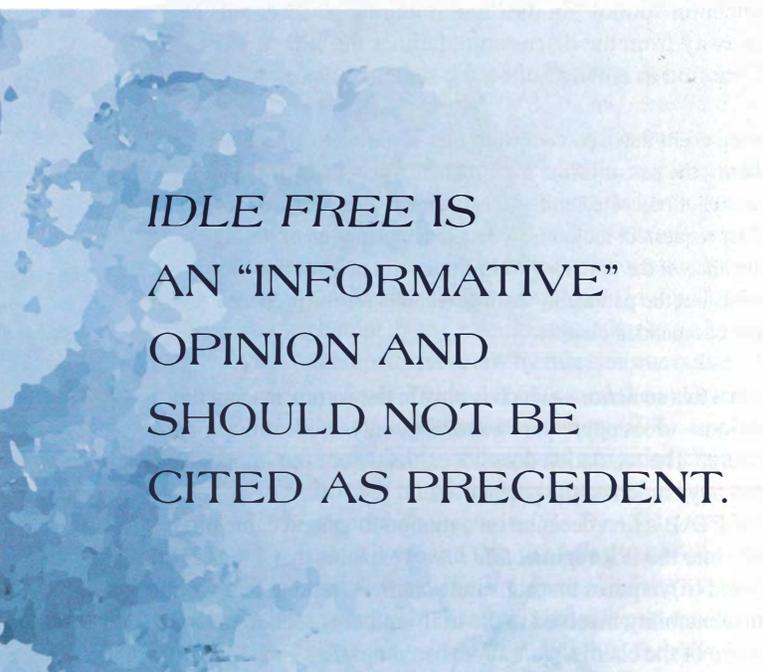
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substitute claims for the same challenged claim; and (3) in certain circumstances, to make a showing of patentable distinction over a substitute claim for another challenged claim. . . . For a patent owner's motion to amend, 37 C.F.R. § 42.20(c) places the burden on the patent owner to show a patentable distinction of each proposed substitute claim over the prior art.<sup>13</sup>

*Idle Free* fails to explain several important factors:

- § 42.121, the most relevant regulation;
- The renunciation of the USPTO's earlier assurances that a "motion [to amend claims] will be entered so long as it complies with the timing and procedural requirements";
- The source of authority for the PTAB to add a new element above those stated in § 42.121, other than "we expect";
- The balancing of "competing interests" and "conflicting policies" that went into the statute or IPR/PGR regulations; and
- Any limiting principle—*Idle Free* demands a patent



## IDLE FREE IS AN "INFORMATIVE" OPINION AND SHOULD NOT BE CITED AS PRECEDENT.

owner show patentability "over the prior art," apparently including prior art not involved in the trial.

Also absent from *Idle Free* are other procedural concomitants of agency rulemaking—notice in the *Federal Register*; analyses required by the Regulatory Flexibility Act, Paperwork Reduction Act (PRA), or Executive Order 12,866<sup>14</sup>; etc.

Some months after its initial issue, *Idle Free* was reissued as an "informative" opinion. The PTAB's "Standard Operating Procedure 2"<sup>15</sup> requires that "informative" opinions not be cited as precedent.

In June 2015, the Federal Circuit in *Microsoft Corp. v. Proxyconn, Inc.*<sup>16</sup> approved the *Idle Free* rule as a valid exercise under the patent law. (The *Proxyconn* briefs did not argue administrative law challenges to *Idle Free*, and *Proxyconn* did not decide them.)

The PTAB extended *Idle Free* in July 2015 in *MasterImage 3D, Inc. v. RealD Inc.*<sup>17</sup> *MasterImage* requires the patent

owner to "set forth a *prima facie* case of patentability."<sup>18</sup>

- The term "*prima facie* case of patentability" over the prior art (requiring the patent owner to prove a negative) is apparently novel to patent law.
- *MasterImage* cites no authority for its allocation of a burden of proof *on an element not mentioned in the regulation*.
- *MasterImage* does not explain any exception to the petitioner's burden to prove any "proposition of unpatentability," § 316(e).

*MasterImage* was originally issued as a "routine" opinion and redesignated "precedential" about a year later.

In 2015 and 2016, the USPTO amended the regulations for IPRs, PGRs, and CBMs.<sup>19</sup> With respect to motions to amend, the only change to the regulation was to increase the page limits.<sup>20</sup> The amendments offer no textual support for the *Idle Free* rule.

### Aqua Products—The PTAB's and Federal Circuit's Decisions

In an IPR, patent owner Aqua Products moved to substitute claims. The PTAB denied the motion, even after expressly finding that Aqua had complied with the elements of § 42.121. "[W]e [the PTAB] are not persuaded that Patent Owner has demonstrated the patentability of the proposed substitute claims over" the prior art, citing *Idle Free* as its only authority for denial.<sup>21</sup> Aqua's proposed amended claims were not substantively considered.

Before the Federal Circuit, Aqua argued only issues arising under the Patent Act: that the plain language of § 316(e) keeps the burden to prove unpatentability on the IPR petitioner, and the PTAB should be required to assess patentability of the amended claims on the entire record, including all arguments. The Federal Circuit panel rejected each of these arguments, based on its *Proxycann* precedent.<sup>22</sup>

On rehearing en banc, the Federal Circuit issued five separate opinions, none commanding a majority<sup>23</sup>: a lead plurality opinion by Judge O'Malley (five judges), a concurrence by Judge Moore (for three of the O'Malley five), a concurrence in part by Judge Reyna (for two judges, joined in part by the Taranto four), and dissents by Judges Taranto (for four, joined in part by the Reyna two) and Hughes (additional views of two of the Taranto four). Some issues were unanimous:

- The PTAB, in final written decisions, must put the burden of proof on the petitioner to show *unpatentability*.
- The court unanimously rejected the USPTO's view that the statute unambiguously puts the burden of proof onto the patent owner to prove patentability in a motion to amend.

On *Chevron* step one, by a 6–5 vote the court ruled *against* patent owner Aqua on the patent law issues raised in the briefs. Six judges (opinions by Reyna, Taranto, and Hughes) interpreted § 316 as either ambiguous or delegating sufficient authority for the USPTO to promulgate the *Idle Free* rule. Only five judges (opinions by O'Malley and Moore) agreed with Aqua's patent law arguments that § 316 unambiguously placed the burden of proof onto the petitioner.

For *Chevron* step two, four of the opinions went on to answer *administrative law* questions (the USPTO's briefs had presented its half of the case on these issues, but Aqua's

briefs barely mentioned administrative law). The court asked itself, even if the Patent Act grants the USPTO *authority* to place the burden of proof on the patent owner to show patentability, did the PTAB properly *exercise* that authority within the administrative law? The opinions by O’Malley, Moore, and Reyna, for a total of seven judges, conclude that the USPTO had failed to observe requirements for rulemaking. The Reyna opinion, for the swing votes, criticizes the *Idle Free* rule for failing to comply with the APA: “The Patent Office cannot effect an end-run around [the APA] by conducting rulemaking through adjudication . . . .”<sup>24</sup>

Though there is no majority reasoning, a majority of seven judges reached a common judgment that the PTAB failed to comply with administrative law requirements, and thus the *Idle Free* rule is no longer binding on the public. Judge Taranto’s “dissent” expresses no disagreement with this viewpoint, but rather declined to address issues that Aqua had not briefed. Only the Hughes opinion (representing just two of 11 judges) concludes that the USPTO properly observed administrative law requirements.

### Administrative Law Simplifies Aqua Products

Some agency interpretations qualify for *Chevron* or *Auer* deference.<sup>25</sup> Supreme Court precedent sets out a two-step analysis for analyzing an agency’s interpretation of ambiguity. Under step one, a court asks whether a statute or regulation is ambiguous. Under step two, a court evaluates whether an agency’s interpretation of that ambiguity is “reasonable.” If so, that interpretation is binding on the public, on courts, and on the agency itself, as if it had been promulgated as a regulation in the *Code of Federal Regulations*. “*Chevron* deference” applies to an agency’s interpretation of an ambiguous statute, or a regulation that fills a gap in a statute (if the agency has a delegation of rulemaking authority). “*Auer* deference” applies to an agency’s interpretations of ambiguities in its own regulations.<sup>26</sup> Under modern Supreme Court law, neither *Chevron* nor *Auer* delegate additional rulemaking authority to agencies—both require that the agency first act within rulemaking authority, using whatever procedure is otherwise required, and then, *only for validly promulgated rules*, courts defer at a level above the ordinary default.<sup>27</sup> Both *Chevron* and *Auer* are limited and have many preconditions for that deference—the well-known “two steps” are only the beginning of the analysis. Many of these preconditions would have been easy-winner arguments had they been raised in patent owner Aqua’s brief.

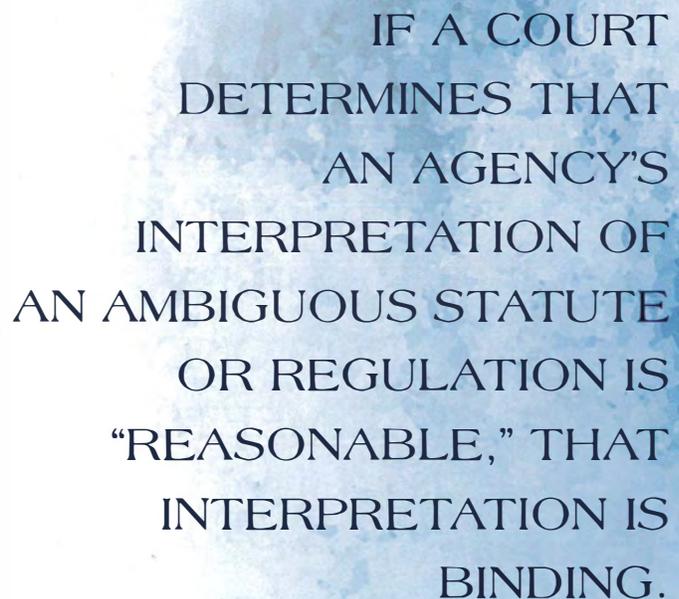
### *Chevron/Auer Interpretations Originate with the Director, Not the PTAB*

Some agencies have a unitary structure with rulemaking and adjudicatory authority consolidated in an agency head, usually a multimember board or commission. Other agencies have split rulemaking and adjudicatory functions. In these split-authority agencies, rulemaking is usually delegated to the agency head and adjudicatory functions are delegated to an intra-agency tribunal that is independent of the agency head. If various components of the split-authority agency disagree on interpretation, the agency component with rulemaking authority on the specific issue wins, and only that component is eligible for *Chevron* deference.<sup>28</sup>

The USPTO is a split-authority agency: § 316(a) delegates rulemaking authority to the Director, not the PTAB. The Director interpreted the IPR statutes to require only the “three elements, one explanation” set forth in § 42.121. Even if *Idle Free* could be characterized as “interpretation,” the PTAB is not the rulemaking component of the USPTO, and its decisions are ineligible for *Chevron* deference.

### *The Controlling “Interpretation” of the Statute Is the One in the Regulations*

The entire case should have been governed by a single “interpretation” of § 316—the interpretation set forth in the USPTO’s regulations. The relevant regulation, § 42.121, integrates and interprets the relevant statutes. It allocates the burden of proof on “three elements, one explanation” of a motion to amend to the patent owner. The final rule notice makes clear that this list is exhaustive: “The motion will be entered so long as it complies with the timing and procedural requirements.”<sup>29</sup> The Trial Practice Guide gives an



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example of an adequate motion to amend—three elements, one explanation. The regulations and the USPTO’s interpretive materials anchor all questions of statutory interpretation and *Chevron* deference.

The regulations were validly promulgated and meet all the other *Chevron* preconditions. Most importantly, they are *regulations* promulgated with statutory procedure, by the statutorily designated part of the agency. Under *Chevron*, § 42.121 is the interpretation of statute that binds parties before the PTAB, a *Chevron* analysis, and, most importantly for this case, *the PTAB and Solicitor*.

Rule 42.121 should have controlled all proceedings at the PTAB and Federal Circuit. The *Idle Free* and *MasterImage* PTAB panels had no authority to expand the required showings, especially not with a wave of the “we expect” hand. All *Chevron* issues in *Aqua Products* are resolvable for the simplest of reasons—§ 42.121 (including its silences) says so.

### **“Reasonableness” of an Interpretation Requires Ex Ante Explanation, Not Ex Post Rationalization**

Under *Chevron* step two, the “reasonableness” of an interpretation is not evaluated ex post by a “reasonable” explanation in an agency’s litigation brief. *Chevron* itself notes the importance of an agency’s explanation, considering “competing interests” and “conflicting policies.” In the last three years, the Supreme Court has clarified that the “reasonableness” inquiry, just like any other review of any other agency action, rests on the ex ante explanation the agency gave when it adopted the interpretation.<sup>30</sup>

Judges O’Malley, Moore, and Reyna note the absence of explanation in the *Idle Free* decision and hold that that silence is “unreasonable.” This divests *Idle Free* of any deference. Judge Taranto notes the statute does “not negate” the PTAB’s *Idle Free* rule.<sup>31</sup> While “not negate” was used as a test for *Chevron* “reasonableness” in older statutory cases and is still current in *Auer* regulatory cases, “not negate” has not been a valid test for a *Chevron*-eligible interpretation for some years.<sup>32</sup> Failure to explain and failure to ground an

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interpretation in the statute itself are both failures of agency “reasonableness,” divesting the PTAB of deference.

### **Rulemaking by Adjudication May Only Interpret—NLRB v. Bell Aerospace**

The PTAB is not an Article III court. Judges Reyna and Hughes allude to a sentence from the Supreme Court’s *NLRB v. Bell Aerospace Co.*: “the [NLRB] is not precluded from announcing new principles in an adjudicative proceeding and . . . the choice between rulemaking and adjudication lies in the first instance within the [PTAB’s] discretion.”<sup>33</sup> This single sentence, out of context, omits several important qualifications on agency rulemaking by adjudication.

Agencies have discretion to choose between rulemaking through rulemaking procedure or by adjudication *only if* the rule meets all statutory requirements:

- The agency component that adjudicates acts within its

rulemaking authority. The PTAB has no rulemaking authority.

- No statute requires otherwise—that is, only for rules that fit the “interpretative,” “statement of policy,” or “procedural” exemptions of § 553(b)(A) and (d). The *Idle Free* rule is ineligible for any § 553 exemption.<sup>34</sup>
- If an agency relies on the “interpretative” exemption to § 553 notice and comment, the agency may create a rule by adjudication only as an interpretation of an ambiguity. Gap-filling in a *regulation* is ineligible for *Auer* deference, as discussed below.
- The rule does not implicate the PRA. The *Idle Free* rule is a “rule of general applicability” calling for information to be filed with the agency, and thus comes within the coverage of the PRA.<sup>35</sup> Without full PRA procedures, the *Idle Free* rule is unenforceable, as discussed below.
- The agency accepts the risk of losing *Chevron* or *Auer* deference, and is willing to stand on *Skidmore* deference for a nonlegislative rule.

*Bell Aerospace* concerned an “interpretative” rule (resolving ambiguity in the word “management”) that met all other statutory concerns. *Bell Aerospace* does *not* stand for the proposition that an agency may exempt itself from statutorily required rulemaking procedures simply by acting through common law adjudication.

Agencies may not grant themselves extra-statutory rulemaking authority.<sup>36</sup> Judge Moore expresses her skepticism of the PTAB’s Standard Operating Procedure 2 (SOP2),<sup>37</sup> while the Reyna, Taranto, and Hughes opinions seem to assume it is a valid statement of agency authority. However, SOP2 is not a statute. The USPTO’s rulemaking authority exists only as delegated by statute. The PTAB cannot grant itself rulemaking authority simply by claiming to have it, cannot create a self-waiver from statutory rulemaking procedure simply by diverting attention elsewhere, and cannot create an alternative rulemaking procedure—substituting a poll of administrative patent judges (APJs) for public notice and comment—simply by calling it “standard” procedure.

Judge Hughes’s concern for an agency’s ability to “interpret” without further full-procedure “regulation”<sup>38</sup> is readily resolved—agencies may “interpret” with minimal procedure, 5 U.S.C. § 553(b)(A), but “interpretation” requires underlying text in a statute or regulation. Adding a fourth element to a three-element regulation, *à la Idle Free*, is not “interpretation.”

### **Agencies Do Not Have Common Law Incremental Authority**

Judge Hughes, in section II of his dissent,<sup>39</sup> observes the step-by-step progress from formally adopted regulation to *Federal Register* notice to *Idle Free* to *MasterImage*, and seems to accept that the PTAB has the power to engage in step-by-step adjudication in the manner of a common law court.

Incremental rulemaking by informal procedures is an Article III power, not an agency power. The D.C. Circuit has observed the pattern of “creeping guidance,” law being made without notice and comment or other public participation, without publication in the *Federal Register* or *Code of Federal Regulations*:

The phenomenon we see in this case is familiar. . . . The agency [promulgates] regulations containing broad language,

open-ended phrases, ambiguous standards and the like. Then as years pass, the agency issues circulars or guidance or memoranda, explaining, interpreting, defining and often expanding the commands in the regulations. One guidance document may yield another and then another and so on. Several words in a regulation may spawn hundreds of pages of text as the agency offers more and more detail regarding what its regulations demand of regulated entities. Law is made, without notice and comment, without public participation, and without publication in the Federal Register or the Code of Federal Regulations.<sup>40</sup>

The D.C. Circuit suggested (without holding) that creeping interpretation might be permissible in nonbinding advisory guidance but was impermissible if the agency gave it binding weight. The Supreme Court amplified this caution: an agency cannot, “under the guise of interpreting a regulation, . . . create *de facto* a new regulation.”<sup>41</sup>

### ***There Is No Auer Deference for Gap-Filling***

The USPTO’s brief argues in the alternative, that *Idle Free* should have received *Auer* deference as an interpretation of the regulations, and Aqua’s reply brief does not respond.

Gap-filling is one of the big differences between *Auer* and *Chevron*—under *Chevron*, an agency may have deference for *either* interpretation of an ambiguity or (where there’s delegated rulemaking authority) a gap-filling of a silence. But *Auer* is different—an agency is entitled to *Auer* deference only for an *interpretation* of an *ambiguous* rule. There is no such thing as *Auer* gap-filling:

In *Auer*, we held that an agency’s interpretation of its own regulation is entitled to deference. But *Auer* deference is warranted *only* when the language of the regulation is *ambiguous*. The regulation in this case, however, is not ambiguous—it is plainly permissive. To defer to the agency’s position would be to permit the agency, under the guise of interpreting a regulation, to create *de facto* a new regulation. Because the regulation is not ambiguous on the issue of compelled compensatory time, *Auer* deference is unwarranted.<sup>42</sup>

The difference all flows from statute—§ 553(b)(A) authorizes agencies to “interpret” regulations with few procedural safeguards but not to adopt gap-filling regulations without statutorily required procedure. That statutory principle flows into *Auer*—*Auer* is only a rule of enhanced deference to interpretations that *first* meet requirements of § 553(b)(A), not an extra-statutory grant of rulemaking authority or waiver of statutory procedural requirements. Gap-filling authority exists only when it has been delegated by statute, and no agency has blanket authority to graft new elements into its regulations or guidance whenever it would like. A silence in a regulation is just that—a silence that leaves an underlying (usually permissive) default intact—not an invitation for gap-filling.

Rule 42.121 lists three elements, one explanation; § 42.20(c) says who must prove or explain them. No conflict, no ambiguity. Numerous statements in the USPTO’s rulemaking notices and Trial Practice Guide reinforce this

interpretation. If there is no ambiguity, the *Auer* analysis ends at step one, and *Auer* offers no protection for *Idle Free*.

### ***Violations of the PRA***

Under the PRA, an agency may not promulgate a rule that demands paperwork from a party unless it has taken certain steps to analyze the effect of that rule and obtained clearance from the Office of Management and Budget (OMB).<sup>43</sup> In absence of that clearance, the USPTO may not impose any penalty on a party for failure to comply with an agency’s requirements.<sup>44</sup>

OMB’s website<sup>45</sup> shows that the USPTO obtained clearance for the three elements of § 42.121 in August 2012. OMB’s website shows nothing later reflecting any attempt by the USPTO to obtain clearance for the additional elements of *Idle Free*.

Without such clearance, the USPTO cannot penalize a party for failure to comply with the *Idle Free* rule.

### ***The Idle Free/MasterImage Rule Fails Requirements for Notice***



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The PTAB, like any other agency, must give some level of prior notice before promulgating a rule of general applicability. An agency may not finalize a rule that is not a “logical outgrowth” of the rule as proposed without a further round of notice and comment.<sup>46</sup> Even in a final rule notice, an agency cannot use responses to comments to do anything more than interpret the actual text of regulations.<sup>47</sup> We know of no legal authority granting an agency power to do by adjudication what it cannot do by statutory rulemaking.

As noted earlier, the NPRM specifies three elements, one explanation for an amendment to claims. There is no suggestion of any burden to show a fourth, relating to substantive patentability. The final rule notice goes further, reassuring the public that the USPTO would not impose new requirements beyond § 42.121. The absence of comments establishes that the USPTO gave no notice that any possibility of such an interpretation was worth commenting on.

An agency may amend a rule, but it must use the same level of procedure that was used to promulgate the rule in the first instance.<sup>48</sup> Here, § 42.121 is a legislative rule, promulgated by notice and comment—if the PTAB wanted to add further requirements for a motion to amend, it had to go through the same procedures. Similarly, an agency is allowed to change its mind about a rule, but it must acknowledge that it is doing so and provide an explanation for its new position.<sup>49</sup> Here, the *Idle Free* opinion does not even acknowledge the absence of “patentability over the art” from § 42.121 or the several statements in the final rule notice, let alone acknowledge the change or explain reasons for a new interpretation.

### ***The PTAB’s Reliance on “Informative” Opinions Is Systemically Problematic***

There are two kinds of agency decisions recognized by the APA: “precedential” and “nonprecedential.” In particular, 5 U.S.C. § 552(a)(1)(C) and (a)(2)(A) tells us that an agency may not assert a nonprecedential decision against any party but itself, unless it has been published in the *Federal Register*, the person against whom it was asserted had “actual and timely notice,” or it has been electronically published and indexed.<sup>50</sup> Likewise, § 553(b)(A) grants agencies authority to promulgate hortatory “statements of general policy,” but only if the agency does not treat them as binding.

In 2006, the PTAB decided it needed a third, nonstatutory class of decision: “informative.” For nearly two years from the first case with such a designation, the PTAB’s SOP2 only provided for “precedential” and “nonprecedential” opinions and gave no explanation for the meaning of “informative” opinions. After two years of operating in the dark, the USPTO told the public what “informative” means, contrasting “informative” against “precedential.”<sup>51</sup> All versions of the PTAB’s SOP2 since 2008 have assured “[a]n informative opinion is not binding authority.”<sup>52</sup> To confirm that “informative” opinions are not precedential, many of them bear the following legend: “The opinion in support of the decision being entered today was *not* written for publication and is *not* binding precedent of the Board.”

Nonetheless, the PTAB regularly cites “informative” opinions as if they were precedential and binding. For example, *Idle Free* was the sole authority cited to deny Aqua’s motion to amend, one of 100 times the PTAB invoked *Idle Free* as binding authority before *MasterImage* was redesignated “precedential.”<sup>53</sup> Other “informative” opinions have been cited dozens of times, often as authority for overruling a square holding of the Federal Circuit.<sup>54</sup> The problem with the PTAB’s reliance on nonprecedential decisions has been flagged in several notice and comment letters, yet the practice continues.

The PTAB’s practice of citing “informative” decisions in anything other than an “interpretative” role, especially *as if they were* binding or precedential, is very difficult to square with the requirement of 5 U.S.C. § 552 to *not* cite nonprecedential cases against any party except the agency itself. Likewise, the PTAB’s own SOP2 says informative opinions are not precedential, and when the PTAB cites them as precedent, the violation of an agency’s own rules is essentially a per se basis to declare PTAB decisions “void” or “illegal and of no effect.”<sup>55</sup>

At the time of the *Aqua Products* final written decision, *Idle Free* was electronically published but not indexed. Thus, unless the PTAB specifically served copies on parties or could otherwise prove actual knowledge, *Idle Free* could not be cited in the way it was.<sup>56</sup> However, this theory was not raised in the *Aqua Products* briefing or addressed by the Federal Circuit.

### **Can the USPTO Repromulgate the *Idle Free* Rule through Regulation?**

On November 21, 2017, Chief APJ David Ruschke issued a memorandum, “Guidance on Motions to Amend in View of *Aqua Products*,”<sup>57</sup> announcing that the PTAB will no longer place the burden of persuasion on a patent owner with respect to the patentability of substitute claims presented in a motion to amend. The PTAB will determine whether the substitute claims are unpatentable based on the entirety of the record, including any opposition made by the petitioner. Beyond that, motion to amend practice will not change.

Further, Chief APJ Ruschke has indicated the PTAB’s willingness to consider changing the approach on motions to amend to become more of an iterative process.<sup>58</sup> He lamented that currently an IPR trial concludes with a final written decision on a motion to amend, without any opportunity for the parties to hash out an agreeable amendment; the final written decision grants or denies the motion with no guidance or suggestion from the PTAB to help put a motion in condition for grant. *Idle Free* justified this system by arguing that there are other ways to correct a patent, such as by ex parte reexamination or reissue.<sup>59</sup> The subsequent actual practice of the PTAB, enjoining parties from pursuing those alternative paths, has been one of the problematic double standards facing patent owners. Further, due to the one-year time restraints of the IPR, the PTAB was not willing to partake in ex parte examination.

New regulations to strike the proper balance between the one-year time constraints on IPRs and an all-or-nothing final written decision could benefit the patent owner, petitioner, and public. How can the USPTO issue (and follow) proper new regulations on motions to amend?

Rulemaking begins with roundtables, public requests for comment, and similar consultation with the public.<sup>60</sup> Rulemaking has to proceed under the aegis of the Director and the rulemaking apparatus in the Office of General Counsel. All claims for fairness and efficiency will have to be supported by evidence that meets the USPTO’s own Information Quality Guidelines. Procedural requirements arise under the APA, PRA, Regulatory Flexibility Act, and several executive orders.<sup>61</sup> Neglect of any requirement would expose the PTAB’s new rule to challenge. Once regulations issue, PTAB judges should be instructed that regulations bind both the agency and the public, and improvisation as exemplified in *Idle Free* and *MasterImage* is not consistent with the legal obligations of APJs.

### **Conclusion**

The USPTO should implement the OMB’s Good Guidance Bulletin<sup>62</sup> for all operations, including the PTAB. Extensive rewriting of SOP2 is required to reflect limits on the PTAB’s authority and to implement the Good Guidance Bulletin. Obsolete opinions on the PTAB’s “precedential” and

“interpretative” pages should be tagged appropriately. Opinions that have been over-designated at levels that exceed the PTAB’s “interpretative” authority or that opine on issues of substantive law beyond the authority of any component of the USPTO should be down-designated. The PTAB should honor its own rules for its own proceedings and cease citing “informative” opinions as if they were precedential. The PTAB should update its Trial Practice Guide.

For the bar, administrative law expertise is becoming increasingly important to successful representation of clients in intellectual property matters—the PTAB and Federal Circuit can only apply the law if briefs properly educate them, and attorneys who overlook administrative law issues risk losing easy cases. Expertise in administrative law and agency rulemaking can guide agency tribunals to favorable decisions and present compelling arguments to courts after unfavorable decisions. ■

## Endnotes

1. 872 F.3d 1290 (Fed. Cir. 2017).
2. David Boundy, *Administrative Law Observations on Cuozzo Speed Technologies v. Lee*, 9 LANDSLIDE, no. 3, Jan.–Feb. 2017 [hereinafter Boundy, *Observations on Cuozzo v. Lee*]; David E. Boundy, *The PTAB Is Not an Article III Court: A Primer on Federal Agency Rule Making*, 10 LANDSLIDE, no. 2, Nov.–Dec. 2017, at 9 [hereinafter Boundy, *Rule Making Primer*].
3. No. IPR2012-00027, Paper No. 26 (P.T.A.B. June 11, 2013), [https://www.uspto.gov/sites/default/files/ip/boards/bpai/decisions/inform/ipr2012-00027\\_idle\\_free\\_system\\_v\\_bergstrom\\_paper\\_26.pdf](https://www.uspto.gov/sites/default/files/ip/boards/bpai/decisions/inform/ipr2012-00027_idle_free_system_v_bergstrom_paper_26.pdf).
4. 37 C.F.R. § 42.80.
5. Changes to Implement Inter Partes Review Proceedings, Post-Grant Review Proceedings, and Transitional Program for Covered Business Method Patents, 77 Fed. Reg. 48,680 (Aug. 14, 2012) [hereinafter IPR/PGR Final Rule].
6. 77 Fed. Reg. 6868, 6875 (Feb. 9, 2012).
7. IPR/PGR Final Rule, *supra* note 5, at 48,690 (citing 35 U.S.C. §§ 316(d), 326(d)).
8. *Id.* at 48,697 (citing 35 U.S.C. §§ 316(e), 326(e)).
9. *Id.* at 48,690; *see also id.* at 48,706 (“Failure to comply with [any] requirement in the regulation may result in denial of the proposed amendment(s).”).
10. Office Patent Trial Practice Guide, 77 Fed. Reg. 48,756, 48,767 (Aug. 14, 2012).
11. Rules of Practice for Trials before the Patent Trial and Appeal Board and Judicial Review of Patent Trial and Appeal Board Decisions, 77 Fed. Reg. 48,612, 48,626 (Aug. 14, 2012).
12. *Idle Free Sys., Inc. v. Bergstrom, Inc.*, No. IPR2012-00027, Paper No. 26 (P.T.A.B. June 11, 2013), [https://www.uspto.gov/sites/default/files/ip/boards/bpai/decisions/inform/ipr2012-00027\\_idle\\_free\\_system\\_v\\_bergstrom\\_paper\\_26.pdf](https://www.uspto.gov/sites/default/files/ip/boards/bpai/decisions/inform/ipr2012-00027_idle_free_system_v_bergstrom_paper_26.pdf).
13. *Id.* at 6–7 (emphasis added).
14. An overview of these laws is given in Boundy, *Rule Making Primer*, *supra* note 2, at 10–13.
15. PATENT TRIAL & APPEAL BD., STANDARD OPERATING PROCEDURE 2 (REVISION 9) § IV (2014) [hereinafter SOP2 (REV. 9)], <https://www.uspto.gov/sites/default/files/documents/sop2-revision-9-dated-9-22-2014.pdf>.
16. 789 F.3d 1292 (Fed. Cir. 2015).
17. No. IPR2015-00040, Paper No. 42 (P.T.A.B. July 15, 2015), <https://www.uspto.gov/sites/default/files/documents/ipr2015-00040%20paper%2047%2020150715.pdf>.
18. *Id.* at 4.
19. “CBM” is the transitional program for “covered business method” patents. CBMs generally correspond to PGRs.
20. Amendments to the Rules of Practice for Trials before the Patent Trial and Appeal Board, 80 Fed. Reg. 50,720 (proposed Aug. 20, 2015); Amendments to the Rules of Practice for Trials before the Patent Trial and Appeal Board; Correction, 81 Fed. Reg. 24,702 (Apr. 27, 2016).
21. *Zodiac Pool Sys., Inc. v. Aqua Prods., Inc.*, No. IPR2013-00159, Paper No. 71, at 47 (P.T.A.B. Aug. 22, 2014).
22. *In re Aqua Prods., Inc.*, 823 F.3d 1369 (Fed. Cir. 2016).
23. *Aqua Prods., Inc. v. Matal*, 872 F.3d 1290 (Fed. Cir. 2017).
24. *Id.* at 1339.
25. *See generally* Boundy, *Rule Making Primer*, *supra* note 2.
26. *Chevron U.S.A., Inc. v. Nat. Res. Def. Council, Inc.*, 468 U.S. 837 (1984); *Auer v. Robbins*, 519 U.S. 452 (1997).
27. *Gonzales v. Oregon*, 546 U.S. 243, 255–56 (2006).
28. *Martin v. Occupational Safety & Health Review Comm’n*, 499 U.S. 144 (1991). Thus, the PTAB properly has jurisdiction to determine its own jurisdiction, *Ex parte Lemoine*, 46 U.S.P.Q.2d 1432, 1434 (B.P.A.I. 1995), but not to opine on issues delegated to the Director, *Ex parte Youngpeter*, No. 2009-6636, 2010 WL 3534507, at \*5 (B.P.A.I. Sept. 9, 2010) (unpublished).
29. *See* IPR/PGR Final Rule, *supra* note 5, at 48,690.
30. *Encino Motorcars, LLC v. Navarro*, 136 S. Ct. 2117, 2125 (2016) (in evaluating an interpretation under *Chevron* step two, applying the *State Farm* factors to conclude that the agency had not explained its rule adequately to warrant *Chevron* deference); *Michigan v. EPA*, 135 S. Ct. 2699, 2710 (2015) (in analyzing a regulation under *Chevron* step two, noting the “foundational principle . . . that a court may uphold agency action only on the grounds that the agency invoked when it took the action,” citing *SEC v. Chenery Corp.*, 318 U.S. 80, 87 (1943)). *Motor Vehicle Manufacturer’s Ass’n v. State Farm Mutual Insurance Co.*, 463 U.S. 29, 43, 48, 52 (1983), and *Chenery* are the oft-cited cases elaborating an agency’s obligation to explain its actions and criteria for evaluating “arbitrary and capricious.”
31. Likewise, *Microsoft Corp. v. Proxyconn, Inc.*, 789 F.3d 1292, 1307 (Fed. Cir. 2015), approves that *Idle Free* is not “inconsistent” with the statute. That view had some currency in earlier precedent but was clearly erroneous in 2017.
32. *E.g.*, *Gen. Dynamics Land Sys., Inc. v. Cline*, 540 U.S. 581, 600 (2004) (reasoning that “deference to [an agency’s] statutory interpretation is called for only when the devices of judicial construction have been tried and found to yield no clear sense of congressional intent”).
33. 416 U.S. 267, 294 (1974).
34. *NLRB v. Wyman-Gordon*, 394 U.S. 759, 764, 765–66 (1969) (reasoning that the NLRB may not gap-fill without APA notice and comment); *cf. Bell Aerospace*, 416 U.S. 267 (finding that the NLRB may interpret).
35. While the PRA is nominally limited to “answers to identical questions posed to, or identical reporting or recordkeeping requirements imposed on, ten or more persons,” the relevant implementing regulation, 5 C.F.R. § 1320.3(c)(4)(i), clarifies that the scope of coverage embraces “any recordkeeping, reporting, or disclosure

*Continued on page 64*

requirement contained in a rule of general applicability.”

36. *United States v. Picciotto*, 875 F.2d 345, 347 (D.C. Cir. 1989) (determining that a regulation permitting the Park Service to impose “additional reasonable conditions and . . . limitations” is an invalid attempt by the agency to “grant itself a valid exemption to the APA for all future regulations”).

37. *Aqua Prods., Inc. v. Matal*, 872 F.3d 1290, 1331–32 (Fed. Cir. 2017) (Moore, J., concurring).

38. *Id.* at 1355 (Hughes, J., dissenting).

39. *Id.* at 1364–67.

40. *Appalachian Power Co. v. EPA*, 208 F.3d 1015, 1019–20 (D.C. Cir. 2000); *see also Paralyzed Veterans of Am. v. D.C. Arena L.P.*, 117 F.3d 579, 584 (D.C. Cir. 1997), *overruled on other grounds by Perez v. Mortgage Bankers Ass’n*, 135 S. Ct. 1199 (2015).

41. *Christensen v. Harris County*, 529 U.S. 576, 588 (2000).

42. *Id.* (emphasis added) (citations omitted).

43. 44 U.S.C. § 3507(a).

44. *Id.* § 3512.

45. *OMB Control Number History*, OFFICE OF MGMT. & BUDGET, <https://www.reginfo.gov/public/do/PRAOMBHistory?ombControlNumber=0651-0069> (last visited Apr. 17, 2018).

46. *Chocolate Mfrs. Ass’n of the U.S. v. Block*, 755 F.2d 1098, 1104 (4th Cir. 1985).

47. *Benedict v. Super Bakery, Inc.*, 665 F.3d 1263, 1267–68 (Fed. Cir. 2011) (“The PTO ‘comment’ is not stated in the rule as adopted; the Rule does not state [the PTO’s interpretation].”).

48. *Perez v. Mortgage Bankers Ass’n*, 135 S. Ct. 1199, 1206 (2015); *City of Idaho Falls v. FERC*, 629 F.3d 222, 227 (D.C. Cir. 2011).

49. *Michigan v. EPA*, 135 S. Ct. 2699 (2015).

50. *West’s U.S. Code Annotated* has no cases on the meaning of “indexed”—apparently no other agency has ever had the chutzpah to treat its nonprecedential opinions with similar precedential effect. However, it is a separate requirement than simple listing on the agency’s website and requires something more.

51. BD. OF PATENT APPEALS & INTERFERENCES, STANDARD OPERATING PROCEDURE 2 (REVISION 7) (2008), <https://web.archive.org/web/20080706035523/http://www.uspto.gov/web/offices/dcom/bpai/sop2.pdf>.

52. SOP2 (REV. 9), *supra* note 15, § IV(A).

53. *See, e.g., Zodiac Pool Sys., Inc. v. Aqua Prods., Inc.*, No. IPR2013-00159, Paper No. 71, at 47 (P.T.A.B. Aug. 22, 2014); *HTC Corp. v. Advanced Audio Devices, LLC*, No. IPR2014-01154, Paper No. 40, at 40 (P.T.A.B. Dec. 29, 2015).

54. *In re Lowry*, 32 F.3d 1579, 1582–83 (Fed. Cir. 1994), states, “[t]he printed matter cases have no factual relevance where ‘the invention as defined by the claims requires that the information be processed not by the mind but by a machine, the computer,’” and any “printed matter” exception is confined to “arrangements of printed lines or characters, useful and intelligible only to the human mind.” The PTAB regularly cites “informative” opinions to overrule *Lowry* and apply an imaginary “nonfunctional descriptive matter” rule to computer-readable data.

55. Boundy, *Rule Making Primer*, *supra* note 2, at 54.

56. 5 U.S.C. § 552(a)(1)(C), (a)(2)(A).

57. Memorandum from David P. Ruschke, Chief Admin. Patent Judge, to Patent Trial & Appeal Board, Guidance on Motions to Amend in View of *Aqua Products* (Nov. 21, 2017), [https://www.uspto.gov/sites/default/files/documents/guidance\\_on\\_motions\\_to\\_amend\\_11\\_2017.pdf](https://www.uspto.gov/sites/default/files/documents/guidance_on_motions_to_amend_11_2017.pdf).

58. PTAB Trial Committee Meeting, AIPLA 2017 Annual Meeting (Oct. 19, 2017).

59. *Idle Free Sys., Inc. v. Bergstrom, Inc.*, No. IPR2012-00027, Paper No. 26, at 6 (P.T.A.B. June 11, 2013).

60. The requirement to “consult with members of the public” *in advance* of an NPRM is not literally in the text of the statute but arises out of the interdependencies between required steps. 44 U.S.C. § 3507(a)(1)(D)(ii)(V), (d)(1)(A); 5 C.F.R. §§ 1320.5(a)(3), .8(a)(4), .11(b). The *Rule Making Primer*, *supra* note 2, at 56 n.43, notes several letters explaining the USPTO’s persistent neglect of obligations under rulemaking laws.

61. The Regulatory Flexibility Act and PRA are briefly introduced at Boundy, *Rule Making Primer*, *supra* note 2, at 11–12.

62. OFFICE OF MGMT. & BUDGET, EXEC. OFFICE OF THE PRESIDENT, OMB BULL. NO. 07-02, FINAL BULLETIN FOR AGENCY GOOD GUIDANCE PRACTICES (2007), <https://obamawhitehouse.archives.gov/sites/default/files/omb/assets/omb/memoranda/fy2007/m07-07.pdf>.

# The PTAB Is Not an Article III Court, Part 3: Precedential and Informative Opinions

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**Advance copy:** Forthcoming in AIPLA Quarterly Journal (Winter 2019). Revised December 18, 2018.

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<sup>1</sup> Thanks to Matthew Blackburn of Diamond McCarthy for review comments.

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**I. Introduction**

When the Patent Trial and Appeal Board (PTAB) designates a decision as “precedential,” “informative,” “representative,” or “routine,” what is the legal effect? What does the PTO officially state the effect to be? How does the PTAB actually treat these decisions? What effect is permitted under the administrative law? These questions should all have the same answer. Differences arise when the PTAB operates outside the authority of the Patent Act, Administrative Procedure Act, and related administrative law statutes. Applicants, PTAB trial participants, and the PTAB itself should understand the limits of the PTAB’s authority, and available recourse when the PTAB exceeds its authority.

Section II pulls together the various laws that govern agency rulemaking and adjudication, and assembles them to explain the role of and limits on an agency’s common law rulemaking-by-adjudication.

Section II.G ties these laws together to explain the scope of the PTAB’s authority (or lack thereof) to set binding standards by precedential decision. Section III looks a little deeper, applying the general legal concepts of section II in the specific context of the PTAB and its Standard Operating Procedures, to set broader parameters for the PTAB’s “precedential” and “informative” opinions. Section IV looks at a number of specific example PTAB decisions through those lenses, to analyze where the PTAB is acting within its authority and for the public interest, and where otherwise. Finally, Section V concludes with recommendations for the patent bar, for the PTO, and for the PTAB. Section V identifies tools that lawyers have to guide the PTAB to better decision-making, and appeal from bad decision-making.

This is Part 3 of a series explaining how the administrative law applies in the context of the U.S. Patent and Trademark Office. A recurring theme is that administrative law provides tools to guide agency decision-making, or to appeal agency decisions, tools designed to help agencies provide procedural predictability and higher-quality decision making. The administrative law provides tools that are powerful enough to turn loser cases into winners:

- Part 0<sup>2</sup> discussed *Cuozzo Speed Technologies v. Lee*—at the Supreme Court, the parties argued the case on patent law grounds, and lost—but the majority and dissenting opinions explain that it could have been an easy winner case had it been argued on administrative law grounds.
- Part 1<sup>3</sup> of this article series is a general primer on administrative rule making. At the 2018 Federal Circuit Judicial Conference, in the day’s opening remarks, Judge Plager (the court’s administrative law expert) urged that the patent bar would do well to develop a deeper understanding of the

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<sup>2</sup> David Boundy, *Administrative Law Observations on Cuozzo Speed Technologies v. Lee*, 9 LANDSLIDE, no. 3, digital feature [https://www.americanbar.org/publications/landslide/2016-17/january-february/administrative\\_law\\_observations\\_cuozzo\\_speed\\_technologies\\_v\\_lee.html](https://www.americanbar.org/publications/landslide/2016-17/january-february/administrative_law_observations_cuozzo_speed_technologies_v_lee.html) (Jan.–Feb. 2017).

<sup>3</sup> David Boundy, *The PTAB is Not an Article III Court, Part 1: A Primer on Federal Agency Rule Making*, ABA LANDSLIDE 10:2, pp. 9-13, 51-57 at 51-52 (Nov-Dec. 2017).

administrative law, and recommended Part 1 of this article series as a good place to start.

- Part 2<sup>4</sup> explains *Aqua Products, Inc. v. Matal*<sup>5</sup> as a case study in *Chevron* deference—at the Federal Circuit, the case was argued as a patent law case, and those arguments lost. However, a slim majority of the *en banc* court *sua sponte* developed the case on administrative law grounds, and awarded the win to Aqua.

## II. Statutes governing rules of prospective effect

Let’s begin with a brief refresher on a few issues of administrative law.

Executive branch agencies do not have “inherent authority” to make law—the legislative power is vested in Congress, and the judicial power is vested in the courts.<sup>6</sup> Agencies have only such rulemaking authority as is delegated by statute, and may exercise that authority *only* within procedures set by a number of statutes and executive orders.<sup>7</sup>

A few specific applications of those two general principles—agencies (or agency components like the PTAB) can only act within the authority granted by statute, and then only within procedure—are especially important in understanding the PTAB’s authority to act by precedential or informative decision. So let’s look at the various delegations of authority to the various components of the PTO, a few relevant provisions of the APA and related statutes as they apply to all agencies, and a few implications of *Chevron* and *Auer* deference to rulemaking. Then in § III, we’ll apply these general administrative law

concepts and focus them in on PTAB rulemaking-by-adjudication.

### II.A. The PTO’s islands of substantive rulemaking authority

The general rule is that the PTO has no general substantive rulemaking authority.<sup>8</sup> The PTO’s general rulemaking grant, 35 U.S.C. § 2(b)(2)(B), covers only procedural rules.

The PTO has only a few narrow and specific “islands” of substantive rulemaking authority, such as 35 U.S.C. § 2(b)(2)(D) (recognition of attorneys), §§ 41, 311(a), and 321(a) (fee setting), § 115(d) (standards for substitute statements), § 119(e) (standards for late priority claims), § 257(d) (conduct of supplemental examination), § 316(a) (an archipelago of thirteen islands of authority for conduct of *inter partes* review), and § 326(a) (same for post-grant review proceedings).

Each of these statutes delegates rulemaking authority to the Director, not the PTAB.

The PTAB only has authority to decide appeals and to decide *inter partes* reviews (IPRs), post-grant reviews (PGRs), covered business method reviews (CBMs) and the like.<sup>9</sup> Whatever policy-making authority the PTO has is lodged in the Director, and even that is very limited. For example, the broadest grant of “policy” authority is in § 2(a)(2)(A)—the Director has authority to “provide policy direction ... for the Office” but not for the public or for the patent system.

### II.B. The Administrative Procedure Act

The APA governs all actions of executive branch agencies, including the PTAB’s decisions. The APA’s rulemaking provisions cover all statements by which an agency proposes to govern prospective

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<sup>4</sup> David Boundy and Andrew B. Freistein, *The PTAB Is Not an Article III Court, Part 2: Aqua Products v. Matal as a Case Study in Administrative Law*, ABA LANDSLIDE 10:5, pp. 44-51, 64 (May-Jun. 2018).

<sup>5</sup> *Aqua Products, Inc. v. Matal*, 872 F.3d 1290, 124 USPQ2d 1257 (Fed. Cir. 2017).

<sup>6</sup> U.S. Const. Art. I § 1 and Art III § 1; *see generally* Boundy, *Part 1: Rulemaking Primer*, *supra* note 3.

<sup>7</sup> *Chrysler Corp. v. Brown*, 441 U.S. 281, 303 (1979) (any regulation promulgated “must conform with any procedural requirements imposed by Congress. ... [A]gency discretion is limited not only by substantive, statutory grants of authority, but also by the procedural requirements which ‘assure fairness and mature consideration of rules of general application’”); *see generally* Boundy, *Part 1: Rulemaking Primer*, *supra* note 3.

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<sup>8</sup> *Koninklijke Philips Elects. N.V. v. Cardiac Science Operating Co.*, 590 F.3d 1326, 1337, 93 USPQ2d 1227, 1234 (Fed. Cir. 2010); *Merck & Co. v. Kessler*, 80 F.3d 1543, 1549–50, 38 USPQ2d 1347, 1351 (Fed. Cir. 1996) (statute “does NOT grant the Commissioner the authority to issue substantive rules.”); *see also Brand v. Miller*, 487 F.3d 862, 869 n.3, 82 USPQ2d 1705, 1709 n.3 (Fed. Cir. 2007) (“the Board does not earn *Chevron* deference on questions of substantive patent law.”).

<sup>9</sup> 35 U.S.C. §§ 6, 134, 316(c), 318, 326(c), 328.

conduct, whether binding or advisory, no matter what process is used by the agency.<sup>10</sup>

### II.B.1. 5 U.S.C. § 553 and the rulemaking spectrum, and the difference between “rules” and “regulations”

The word “rule” is defined in the APA, § 551(4), and is the broadest genus: it “include[s] nearly every statement an agency may make.”<sup>11</sup>

The APA and other statutes set forth the basics of agency rulemaking. The default is that an agency can only bind the public through a regulation promulgated via notice-and-comment procedures.<sup>12</sup> However, there are several exemptions that permit an agency to engage in “rulemaking” without notice and comment. The three that matter to the PTO are:

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<sup>10</sup> *Batterton v. Marshall*, 648 F.2d 694, 700–01 (D.C. Cir. 1980):

The Administrative Procedure Act (APA), 5 U.S.C. §§ 551 et seq., broadly defines an agency rule to include nearly every statement an agency may make:

(4) “rule” means the whole or a part of 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 and includes the approval or prescription for the future of rates, wages, corporate or financial structures or reorganizations thereof, prices, facilities, appliances, services or allowances therefor or of valuations, costs, or accounting, or practices bearing on any of the foregoing[.]

5 U.S.C. § 551(4) (1976). The breadth of this definition cannot be gainsaid. ... In keeping with the general commitment to public notice and participation, the APA provides only limited exceptions to these requirements.

<sup>11</sup> The basics of agency rulemaking and the relevant statutes and other laws are introduced in Part 1 of this article series. Part 1 explains rulemaking authority, procedure, and binding effect, for the spectrum of legislative rules, *Chevron* interpretations, interpretative rules, and policy statements. Boundy, *Part 1: Rulemaking Primer*, *supra* note 3, at 13, 51-52.

<sup>12</sup> 35 U.S.C. § 553(b), (c) and (d).

- Procedural rules do not require notice and comment, unless an agency’s organic statute says otherwise<sup>13</sup> or the rule falls within the notice and comment requirement of the Paperwork Reduction Act.<sup>14</sup>
- “Interpretative rules,”<sup>15</sup> that is, interpretations of ambiguities (not to be confused with gap-filling), may be promulgated without notice and comment, but are entitled to only limited deference under *Skidmore v. Swift*.<sup>16</sup> But “interpretative” lightweight, publication-only procedure comes with a price for the agency: until they’ve been blessed by an Article III court, “interpretative” rules (promulgated through less than notice-and-comment procedure, and not currently expressed as “regulations”) are only an agency’s “best guess” as to what a statute or regulation means, not the last word on the subject—the agency must entertain arguments for alternative interpretations.<sup>17</sup> (An agency may

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<sup>13</sup> 35 U.S.C. § 2(b)(2) apparently requires the PTO to use notice and comment for its procedural rules, as discussed in Boundy, *Part 1: Rulemaking Primer*, *supra* note 3, at 51-52.

<sup>14</sup> 44 U.S.C. § 3506 and 3507 of the Paperwork Reduction Act have a notice-and-comment provision that applies to most procedural rules. This is introduced in Boundy, *Part 1: Rulemaking Primer*, *supra* note 3, at 52.

<sup>15</sup> 5 U.S.C. § 553(b)(A) and (d)(2).

<sup>16</sup> *Skidmore v. Swift & Co.*, 323 U.S. 134 (1944), discussed in Boundy, *Part 1: Rulemaking Primer*, *supra* note 3 at 53-54. Dean John Manning, in his article *Nonlegislative Rules*, 72 GEO. WASH. L. REV. 893 (June 2004) noted “Among the many complexities that trouble administrative law, few rank with that of sorting valid from invalid uses of so-called ‘nonlegislative rules.’”). Excellent explanations of “interpretative” rules and *Skidmore* deference are found in an Eighth Circuit case, *Drake v. Honeywell, Inc.*, 797 F.2d 603, 606–07 (8th Cir. 1986); Part 1 of this article series, Boundy, *Part 1: Rulemaking Primer*, *supra* note 3, at 52-54, Robert A. Anthony, *Interpretive Rules, Policy Statements, Guidances, Manuals, And The Like--Should Federal Agencies Use Them To Bind The Public?*, 41 DUKE L.J. 1311, 1322-23 (Jun. 1992) (citations omitted); JEFFREY S. LUBBERS, A GUIDE TO FEDERAL AGENCY RULEMAKING Part II, § 1(D)(3).

<sup>17</sup> *Perez v. Mortgage Bankers Assn.*, 135 S.Ct. 1199, 1204 (2015) (“[T]he critical feature of interpretive rules is that they are “issued by an agency to advise the public

also “interpret” by a full-procedure regulation, and then that interpretation is a “legislative” rule with all the accompanying weight.<sup>18</sup>)

- An agency may issue hortatory “general statements of policy” by simply publishing

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of the agency’s construction of the statutes and rules which it administers. The absence of a notice-and-comment obligation makes the process of issuing interpretive rules comparatively easier for agencies than issuing legislative rules. But that convenience comes at a price: Interpretive rules do not have the force and effect of law and are not accorded that weight in the adjudicatory process.” citations and internal quotations omitted); *Good Guidance Bulletin*, *infra* at note 396, § II(2)(h) (agency may not rely on guidance to “foreclose agency consideration of positions advanced by affected private parties.”); *Chrysler*, note 7 *supra*, 441 U.S. at 315 (after agency characterizes a rule as “interpretative,” Court holds “[A] court is not required to give effect to an interpretative regulation.”); *National Latino Media Coalition v. F.C.C.*, 816 F.2d 785, 788–89 (D.C. Cir. 1987) (“...a ‘legislative rule’ ... is a rule that is intended to have and does have the force of law. A valid legislative rule is binding upon all persons, and on the courts, to the same extent as a congressional statute. ... An ‘interpretative’ rule, by contrast, does not contain new substance of its own but merely expresses the agency’s understanding of a congressional statute. ... Thus an interpretative rule does not have the force of law and is not binding on anyone, including the courts....”); *Drake v. Honeywell, Inc.*, 797 F.2d 603,607 (8th Cir. 1986) (“Being in nature hortatory, rather than mandatory, interpretive rules can never be violated.”); *Cubanski v. Heckler*, 781 F.2d 1421, 1426 (9th Cir. 1986) (“an interpretive rule is one issued without delegated legislative power. ... Such rules are essentially hortatory and instructional in that they go more ‘to what the administrative officer thinks the statute or regulation means.’”).

<sup>18</sup> RICHARD PIERCE, ADMINISTRATIVE LAW, § 6.4 (“A rule that performs [an] interpretative function is a legislative rule rather than an interpretative rule if the agency has the statutory authority to promulgate a legislative rule and the agency exercises that power.”).

The difference between “interpretative” rules that may be promulgated by lightweight publication vs. rules that require legislative procedure for *Chevron* deference is explained in Boundy, *Part 1: Rulemaking Primer*, *supra* note 3. A preliminary draft of an amplified and further-developed explanation is available from the author on request.

them.<sup>19</sup> Policy statements are nonbinding rules of thumb, suggestions for conduct, tentative indications of an agency’s hopes, but with no binding effect whatsoever.<sup>20</sup> A policy statement “genuinely leaves the agency and its decisionmakers free to exercise discretion,” and “a statement of policy may not have a present effect: a ‘general statement of policy’ is one that does not impose any rights and obligations.”<sup>21</sup>

Legislative rules, *Chevron* interpretations, interpretative rules, and policy statements lie on a spectrum: requirements for delegation of rulemaking authority, procedure for promulgating a rule, and binding effect of the rule, co-vary along that spectrum, as explained in Part 1 of this article series.<sup>22</sup>

By 5 U.S.C. § 553(b)(A) and (d)(2), Congress delegated blanket authority to agencies to *interpret* and resolve ambiguity in statutes or regulations.<sup>23</sup> But gap-filling authority exists only where expressly delegated.<sup>24</sup> Authority to “interpret” requires an “active” ambiguity, such as an ambiguous term, a

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<sup>19</sup> 35 U.S.C. § 552, § 553(b)(A) and (d); Boundy, *Part 1: Rulemaking Primer*, *supra* note 3, at 13, 54.

<sup>20</sup> *Community Nutrition Institute v. Young*, 818 F.2d 943, 946 (D.C. Cir. 1987) (quotations omitted); *McLouth Steel Products Corp. v. Thomas*, 838 F.2d 1317, 1320 (D.C. Cir. 1988) (“A policy statement is one that first, does not have ‘a present-day binding effect,’ that is, it does not ‘impose any rights and obligations,’ and second, ‘genuinely leaves the agency and its decisionmakers free to exercise discretion.’”); *Brock v. Cathedral Bluffs Shale Oil Co.*, 796 F.2d 533, 536–37 (D.C. Cir. 1986) (Scalia, J.) (“A general statement of policy, on the other hand, does not establish a “binding norm.” It is not finally determinative of the issues or rights to which it is addressed... A policy statement announces the agency’s tentative intentions for the future.”); *Burroughs Wellcome Co. v. Schweiker*, 649 F.2d 221, 224 (4th Cir. 1981) (“a policy statement must leave the agency free to exercise its discretion and must not establish a ‘binding norm.’ It must not be finally determinative of the issues or rights to which it is addressed.”).

<sup>21</sup> *Community Nutrition*, note 20 *supra*, 818 F.2d at 946.

<sup>22</sup> See Boundy, *Part 1: Rulemaking Primer*, *supra* note 3, at 13 (presenting the spectrum in table form).

<sup>23</sup> 5 U.S.C. § 553(b)(A) and (d)(2).

<sup>24</sup> *Chrysler*, note 7 *supra*, 441 U.S. at 303.

general term, or a conflict. Prof. Robert Anthony, who was Chairman of the Administrative Conference of the United States 1974-79, explained that “an agency may permissibly make [nonregulatory guidance] binding on private parties [only] for interpretive rules. These are rules that interpret statutory [sic: or regulatory] language which has some tangible meaning, rather than empty or vague language like ‘fair and equitable’ or ‘in the public interest.’ ... [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>25</sup> A passive silence in the underlying statute or regulation filled by a new rule, or a new rule that is merely “consistent with” or “not negated” by the underlying statute or regulation, are almost never sufficient bases to exercise § 553(b)(A) “interpretative” publication-only procedure.<sup>26</sup> There must be an underlying statute or regulation that *itself* has force of law, and that underlying law must require interpretation.<sup>27</sup>

This area, especially the dividing line between interpretative and legislative rules, has vexed courts for decades.<sup>28</sup> Only recently has order begun to

emerge from chaos, largely through a new focus on precise vocabulary.<sup>29</sup> But the old chaos continues to influence recent decisions. For example, in *Aqua Products*, Judge Hughes’ dissent starts with the proposition that the words “rule” and “regulation” are “used interchangeably.”<sup>30</sup> The two are not equivalent. While it is true that all “regulations” are also “rules”—the APA defines “rule” as the broadest genus<sup>31</sup>—it does not follow that every “rule” is a “regulation.”

The *Aqua* dissent then expresses a concern that forcing an agency to follow the procedural steps of § 553 and the other statutes that govern agency rulemaking would “make the administrative process inflexible and incapable of dealing with many of the specialized problems which arise.”<sup>32</sup> The *Aqua* dissent overlooks the “dichotomy” between agency adjudication and rulemaking.<sup>33</sup> Further, this dissent cites a case—at the specific page of the case—in which the Supreme Court discourages “*ad hoc* adjudication to formulate new standards of conduct” when issues are predictable, and encourages use of statutory rulemaking procedure except for issues that the agency “could not reasonably foresee.”<sup>34</sup> The dissent overlooks ways that the APA differentiates what an agency can do in adjudicating a single case vs. what it can do in promulgating a rule of prospective effect.<sup>35</sup>

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<sup>25</sup> Anthony, note 16, 41 DUKE L.J. at 1312-13.

<sup>26</sup> *Mission Group Kan., Inc. v. Riley*, 146 F.3d 775, 781 (10th Cir. 1998) (quoting Richard A. Posner, *The Rise and Fall of Administrative Law*, 72 CHI-KENT L. REV. 953, 962 (1997)); see also *NLRB v. Wyman-Gordon*, discussed in § II.D, *infra*.

<sup>27</sup> JEFFREY S. LUBBERS, A GUIDE TO FEDERAL AGENCY RULEMAKING, *Summary of the law on nonlegislative rules*, Part II, § 1(D)(3)(e) at 90 (5th ed. 2012) (an agency may promulgate an “interpretative” rule “only if the agency’s position can be characterized as an ‘interpretation’ of a statute or legislative regulation rather than as an exercise of independent policymaking authority.”).

<sup>28</sup> See, e.g., Manning, note 15, *supra*; Richard Pierce, *Distinguishing Legislative Rules from Interpretative Rules*, 52 ADMIN. L. REV. 547 (Spring 2000) (“For over fifty years, courts and commentators have struggled to identify, and to apply, criteria that are appropriate to distinguish between legislative rules and interpretative rules. The results have not been pretty.”); *Community Nutrition*, note 20 *supra*, 818 F.2d at 946, 947 n. 8 (citing past decisions characterizing the distinction as “tenuous,” “fuzzy,” “blurred,” “baffling,” and “enshrined in considerable smog” and acknowledging that a prior attempt at a “real dividing point” was an oversimplification).

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<sup>29</sup> See *Perez*, note 17 *supra* (clarifying use of the terms “interpretative” vs. “legislative” rules); Boundy, *Part 1: Rulemaking Primer*, note 3 *supra* at 51 (explaining the older confusing vocabulary and emerging, more precise, new vocabulary).

<sup>30</sup> *Aqua*, note 5 *supra*, 872 F.3d at 1365, 124 USPQ2d at 1304 (Hughes, J., dissenting).

<sup>31</sup> 5 U.S.C. § 551(4); *Batterton*, note 10, *supra*.

<sup>32</sup> *Aqua*, note 5 *supra*, 872 F.3d at 1365, 124 USPQ2d at 1277 (Hughes, J., dissenting), citing *SEC v. Chenery Corp. (Chenery II)*, 332 U.S. 194, 202 (1947). Note further that *Chenery* predates the APA, and

<sup>33</sup> E.g., U.S. Dept. of Justice, ATTORNEY GENERAL’S MANUAL ON THE ADMINISTRATIVE PROCEDURE ACT (1947) at 14 (“the entire Act is based upon a dichotomy between rule making and adjudication.”)

<sup>34</sup> *Chenery II*, note 32 *supra*, 332 U.S. at 202-03.

<sup>35</sup> *Aqua*, note 5 *supra*, 872 F.3d at 1360-67, 124 USPQ2d at 1301-06 (Hughes, J. dissenting). The *Aqua* dissent’s reliance on *Chenery II* is also suspect, because *Chenery II* doesn’t decide under the APA. The facts of

The *Aqua* dissent's dismissive view of statutory rulemaking procedure is an outlier from a "near unanimous" recognition of the importance of public participation, agency deliberation, policy balancing, and notice.<sup>36</sup> This dissent's minimalist view of an agency's procedural obligations is in tension with decades of Supreme Court's case law.<sup>37</sup> Over the last two decades, the Supreme Court has recognized that § 553 rulemaking and its procedures are crucial to *Chevron* and *Auer* deference.<sup>38</sup> The *Aqua* dissent observes—correctly—that an agency may interpret statutes and regulations by lightweight procedures less formal than notice-and-comment and regulation. Of course § 553(a) and (d) assure us of that. But the dissenters would have extrapolated the § 553 lightweight procedure exemption beyond its statutory role of *interpreting ambiguity*, and would have affirmed a rule that the PTAB made up on the fly, with no textual grounding.<sup>39</sup>

Congress displays acute care in its choice of words in the Patent Act, to track general principles of administrative law. The Patent Act is quite consistent in delegating authority to promulgate "regulations" for issues that are foreseeable and determine substantial rights.<sup>40</sup> In contrast, authority to act by "rule" or to set

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the case predated the APA. *Chenery Corp. v. SEC*, 154 F.2d 6, 8 (D.C. Cir. 1946) (the facts arose in 1941 and 1945); ATTORNEY GENERAL'S MANUAL, note 33 *supra*, at 5 (APA was signed into law in June 1946).

<sup>36</sup> ATTORNEY GENERAL'S MANUAL, note 33 *supra*, at 15 (explaining reasons that Congress enacted procedural requirements for rulemaking); RICHARD PIERCE, note 18 *supra* § 6.8, *The Many Advantages of Rules and Rulemaking* ("Over the years, commentators, judges, and Justices have shown near unanimity in extolling the virtues of the rulemaking process over the process of making 'rules' through case-by-case adjudication," and collecting cases).

<sup>37</sup> *E.g.*, *Chrysler*, note 7 *supra*, 441 U.S. at 303; *Gonzalez*, note 103 *infra*, 546 U.S. at 255-56, and accompanying text.

<sup>38</sup> See note 74, *infra*, and its accompanying text.

<sup>39</sup> *Aqua*, note 5 *supra*, 872 F.3d at 1367, 124 USPQ2d at 1306 (Hughes, J. dissenting); Boundy & Freistein, *Part 2: Aqua Products v. Matal*, *supra* note 4 at 44-51.

<sup>40</sup> The following statutes grant the Director the authority to promulgate *regulations*. 35 U.S.C. § 2(b)(2)(D) (Director may promulgated general procedural regulations), § 2(b)(2)(D) (Director may

"procedures" is delegated only for (a) supervision of acts of agency employees,<sup>41</sup> (b) issues where equitable discretion is needed to adjudicate one-off past facts (for example, to cure lost mail or missed deadlines) but foresight of all possible future situations is high impossible,<sup>42</sup> and (c) ministerial acts that do not effect substantial rights.<sup>43</sup> 35 U.S.C. § 257(d)(2) is particularly instructive on the difference between "regulation" and non-regulation: the Director shall issue *regulations* for the public to follow in requests for

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promulgate regulations to govern recognition of attorneys and agents); §§ 41 (Director may, by regulation, set fees and conditions for refund), § 115(d) and (h) (Director may specify regulations for substitute statements), § 119(a) and (e) (Director may promulgate regulations for priority claims to foreign applications and provisional applications), § 123(a) (Director may issue regulations to define "micro entity"); § 132(b) (Director shall prescribe regulations for RCEs); § 135 (Director shall prescribe regulations for derivation proceedings); § 154(b)(2) and (3) (Director shall prescribe regulations for term adjustment); §§ 206, 208 (Secretary of Commerce shall issue regulations for Bayh-Dole); § 257(d) (Director shall issue regulations to govern supplemental examination), 311(a) (Director shall, by regulation, establish fees for IPR), § 312(a)(4) (Director may govern IPR petitions by regulation); § 316(a) and (d)(2) (Director shall prescribe regulations for conduct of IPR), § 321(a), § 322(a)(4), § 326 (same for PGR), discussed in § II.A.

<sup>41</sup> See the discussion of "housekeeping rules" in § II.E, *supra*.

<sup>42</sup> See the discussion of *Chenery II* at note 34 *supra*, and accompanying text.

<sup>43</sup> The following statutes grant to the Director rulemaking authority *without* regulation. 35 U.S.C. § 21(a) (Director may by rule specify rules for lost mail); § 23 (Director may establish rules for affidavits and depositions); § 25 (Director may by rule provide for declaration in lieu of oath); § 27 (Director may establish procedures to revive an unintentionally abandoned application); §§ 119, 120, and § 365(b) (Director may establish procedures for an unintentionally delayed priority claim); § 122(b)(1)(A) (Director to determine procedures for publication of applications); § 122(c) (Director shall establish procedures governing protest or pre-issuance opposition); § 122(d) (Director shall establish procedures governing secrecy orders); § 181 (Director may prescribe rules to appeal secrecy orders); § 384 (Director may establish procedures for review of filing date for Hague design application).

supplemental examination, and *procedures* for PTO employees to follow in reviewing those requests.

“Nearly every statement an agency may make” with prospective effect is governed by the APA, and the PTO should not “end run” it.<sup>44</sup>

### **II.B.2. The notice requirements of 5 U.S.C. § 552 and 553**

Basic notions of due process require agencies to give notice to the public of all rules and interpretations of rules. The APA, in 5 U.S.C. §§ 552 and 553, provides that notice may be given in three ways: (i) bodily in the Federal Register, (ii) incorporation by reference into the Federal Register, or (iii) personal, actual, and timely notice to affected individuals. Each agency is required by § 552(a)(1) to publish in the Federal Register all “statements of the general course and method by which its functions are channeled and determined, including the nature and requirements of all formal and informal procedures available,” rules of procedure, substantive rules, statements of general policy, and each amendment, revision, or repeal.

Instead, the PTO issues “rules” to which the PTO attaches binding prospective effect through dozens of channels:

- Some rules and interpretations are published in the Federal Register—as they are supposed to be.
- Some in the PTO’s *sui generis* Official Gazette.<sup>45</sup> Sometimes the Official Gazette is years behind in publishing notices.<sup>46</sup>

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<sup>44</sup> *Batterton*, note 10 *supra*; *Aqua Products*, note 5 *supra*, 872 F.3d at 1339, 124 USPQ2d at 1287 (Reyna, J. concurring) (“The Patent Office cannot effect an end-run around its congressionally delegated authority by conducting rulemaking through adjudication without undertaking the process of promulgating a regulation. . . .”).

<sup>45</sup> For example, the “Pre-Appeal Brief Request for Review” exists only in O.G. notices, not in regulation, not in a Federal Register notice. New Pre-Appeal Brief Conference Pilot Program, PTO OFFICIAL GAZETTE, 12 July 2005. The existence of such a rule is OK, since it is a rule in favor of the public (and therefore authorized under the Housekeeping Act, see § II.E of this article). However, lots of other laws apply. Because it involves a “a written application, petition, or other request,” 5 U.S.C. § 555(e) requires that the appeal conference give a written “statement of grounds” for any adverse

- Some in agency staff manuals—the MPEP contains *hundreds* of interpretations, and dozens of non-interpretative rules with no regulatory antecedent.<sup>47</sup> The MPEP was never published in the manner required by statute before January 2018.<sup>48</sup>
- Some as checkboxes on forms for agency personnel to check off (using text that clashes with the agency’s regulations)<sup>49</sup>.
- Some as memoranda, Q&A or FAQ web pages, webinars, or PowerPoint slides (some of which directly clash with the agency’s regulations or interpretations in the Federal Register),<sup>50</sup> some of which evade rulemaking law to impose immense costs on the public but are kept secret from the public for years,<sup>51</sup> etc.

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decision, not a bare checkbox. Pre-Appeals are covered by the Paperwork Reduction Act, etc.

<sup>46</sup> For example, a memo of Director David Kappos to the examining corps, *Subject Matter Eligibility of Computer Readable Media*, was issued January 26, 2010, but not published in the O.G. until December 2013, nearly four years later. By the time it was published, it had been obsoleted by *Bilski v. Kappos*.

<sup>47</sup> For example, MPEP § 1207.04, which purportedly gives the ability of an examiner to unilaterally abort an applicant’s appeal to the PTAB without the procedural protections of 37 C.F.R. § 41.39(b)(2), is unlawful.

<sup>48</sup> Patent and Trademark Office, *Manual of Patent Examining Procedure, Ninth Edition, Revision of January 2018*, 83 Fed. Reg. 4473 (Jan. 31, 2018) (after 70 years, the PTO runs its first-ever Federal Register notice informing the public of a new revision of the MPEP).

<sup>49</sup> For example, the checkboxes on Form PTOL-303 “Advisory Action” do not agree with the grounds for admitting an after-final amendment set forth in 37 C.F.R. § 1.116(b). This *sub silentio* abrogation of § 1.116(b)(3) is unlawful.

<sup>50</sup> For example, the PTO’s informal guidance, webinars, and FAQ pages on “Application Data Sheets” impose requirements that are stricter than options that are left open in the relevant regulations, in terms that are not “interpretative” of ambiguities in the text. This is unlawful.

<sup>51</sup> For example, in April 2007, John Love, then the Deputy Commissioner for Patent Examination Policy, issued a memo to the examining corps that relaxed the requirements for restricting claims and dividing applications. Shortly after that, applicants began to see

- Some as “Standard Operating Procedures” some published, some held as secret.<sup>52</sup>

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curious “abbreviated” analyses of restrictions, with “abbreviated” form paragraphs that required examiners to make many fewer showings. The cost to the public was easily in the high eight, perhaps nine figures per year. But the memo was kept from the public, so applicants had no way to know how to respond or traverse. The memo eventually became public on the PTO’s web site. I raised this with Director Kappos shortly after his confirmation in 2009. Instead of conforming its behavior to the requirements of law, the PTO doubled down: the Love memo was removed from public visibility, and replaced with a second memo, this time by Robert Bahr. This Bahr memo likewise imposed nine-figure costs on the public. Mr. Bahr continued the PTO’s pattern of disregarding laws that govern rulemaking, and laws that require fair cost accounting and cost-benefit analysis under the Paperwork Reduction Act, executive Order 12,866, and the Regulatory Flexibility Act. The illegality of the PTO’s actions were explained in public comment letters, e.g., at <https://www.uspto.gov/sites/default/files/patents/law/comments/intellectualventures13aug2010.pdf> at 6, 12-17, and <https://www.uspto.gov/sites/default/files/patents/law/comments/boundy16aug2010.pdf> at 19. The PTO took no observable action to conform itself to the law.

<sup>52</sup> The PTAB’s Standard Operating Procedure page <https://www.uspto.gov/patents-application-process/appealing-patent-decisions/procedures/standard-operating-procedures-0> lists only SOP’s 1, 2, and 9. What and where are SOPs 3 through 8? In preparing this article, I requested them by a request under the Freedom of Information Act; the PTO provided only SOP’s 4 and 5. My understanding is that at least one of the still-hidden SOPs relates to SAWS, the infamous secret Sensitive Application Warning System. See *Hyatt v. USPTO: Mandamus Action Requesting an Impartial Administrative Review*, Patently-O (May 22, 2018) <https://patentlyo.com/patent/2018/05/requesting-impartial-administrative.html> (explaining the SAWS program, and allegations that SAWS was an umbrella for unlawful conduct by the PTO). § 552(a)(1)(B) reads “Each agency shall separately state and currently publish in the Federal Register for the guidance of the public ... statements of the general course and method by which its functions are channeled and determined, including the nature and requirements of all formal and informal procedures available.” The statute doesn’t leave a lot of wiggle room for secret procedures...

- Some in agency adjudicatory decisions spread among nearly a dozen lists scattered around the agency’s web site, some published in the United States Patents Quarterly, some not (while the agency’s guidance continues to urge USPQ citation when such exists<sup>53</sup>), some not listed anywhere.<sup>54</sup> Sometimes decisions are designated for elevated status *years* after they are issued, with no meaningful notice to the public.<sup>55</sup>
- And statements by individual employees, either to create new rules against the public, or to create “just for today” exceptions from rules that purport to set standards for agency staff, with no identifiable grounding in any written document.

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<sup>53</sup> MPEP § 705.05; TMEP § 101.03 and § 705.05.

<sup>54</sup> For example, despite issuing about 40 precedential decisions per year (an order of magnitude greater than the PTAB’s rate), the Trademark Trial and Appeal Board apparently maintains no consolidated or indexed list of precedential opinions analogous to the PTAB’s. Where the PTAB seldom speaks at all, the TTAB speaks only in obscurity. What should be a rich body of trademark precedent is worthless because there’s no way to divine its content. The best one can do is find a list maintained on a “catch as catch can” basis by individual lawyers. E.g., <http://thettablog.blogspot.com/2018/01/ttab-issued-36-precedential-rulings-in.html> or try a search on the TTAB’s web site <https://e-foia.uspto.gov/Foia/TTABReadingRoom.jsp> for decisions using a specific keyword during a selected time period, and then click on the “citable as precedent” in the drop-down menu to (hopefully) find pertinent precedential decisions..

“Precedential” decisions do no one any good if they’re not made public and indexed in a manner “reasonably calculated, under all the circumstances, to apprise interested parties.” 5 U.S.C. § 552(a); *Mullane v. Central Hanover Bank & Trust Co.*, 339 U.S. 306, 314 (1950) (the constitutional standard for notice of a civil complaint).

<sup>55</sup> For example, *Ariosa Diagnostics v. Isis Innovation Ltd.*, Case IPR2012-00022, Paper 55 (PTAB 2013) was issued in August 2013, and designated “informative” five years later, in July 2018. It’s not uncommon for a decision to lie latent as “routine” for over a year and then suddenly emerge as precedential or informative.

- Important notice-and-comment periods announced through “Press releases” with no corresponding notice in the Federal Register.<sup>56</sup>

A member of the public would have to be a 100-eyed Argus to track all the multiple sources, and know how any individual PTO employee will resolve the inconsistencies among them. Without § 552 and the Federal Register as a central gatekeeper or focal point, the blur of uncoordinated *sui generis* statements create unpredictability and costs for the public and the PTO.

### II.B.3. The publication, indexing, and noncitation requirements of § 552

The APA also governs advisory or non-binding agency decisions. Each agency is required, by § 552(b)(2), to make available, in electronic format, all final opinions, including concurring and dissenting opinions, all orders made in adjudication of cases, all staff manuals and instructions to staff, and any other policy or interpretation not published in the Federal Register. The agency must, in addition, provide an electronic index of all these materials.<sup>57</sup> Adjudicatory decisions cannot even be cited against the public unless the decision (a) is within the agency’s rulemaking authority and (b) meets additional publication, notice, and indexing requirements of § 552 of the APA.<sup>58</sup>

This is enforced by one of the frequent statements of asymmetry in the APA—note how § 552(a) requires that the public is only bound by statements promulgated with appropriate procedure and for

which notice was given, but allows the agency’s own statements to be used against the agency itself:

A final order, opinion, statement of policy, [or] interpretation ... that affects a member of the public may be relied on, used, or cited as precedent by an agency against a party other than an agency only if—

(i) it has been indexed and either made available or published as provided by this paragraph; or

(ii) the party has actual and timely notice of the terms thereof.<sup>59</sup>

The *Attorney General’s Manual on the Administrative Procedure Act* explains:

The purpose of [§ 552] is to assist the public in dealing with administrative agencies by requiring agencies to make their administrative materials available in precise and current form. [§ 552] should be construed broadly in the light of this purpose so as to make such material most useful to the public.<sup>60</sup>

While the meaning of “indexed” under § 552(A)(2)(i) has not been litigated, it requires more than “making available” under § 552(a)(2)(A).<sup>61</sup> The word “indexed” elsewhere in § 552 has been construed to require “specificity” as to reason, and, if the document has multiple parts, “separation” of parts that index separately.<sup>62</sup> Under a patent law analogy, a technical article is not “meaningfully indexed” to be § 102(b) “printed publication” prior art when it is indexed only by author and date, not by subject matter or keyword search.<sup>63</sup>

### II.C. *Chevron* and *Auer* deference

Some agency interpretations qualify for *Chevron* or *Auer* deference.<sup>64</sup> “*Chevron* deference” applies to an agency’s interpretation of an ambiguous statute, or

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<sup>56</sup> For example, the PTO sought comment on its “Draft 2018-2022 Strategic Plan” only through a “Press Release.” <https://www.uspto.gov/about-us/news-updates/uspto-seeking-public-comments-draft-2018-2022-strategic-plan>. I can find no announcement of the Strategic Plan comment period in any channel in which the PTO gives notice of other requests for comment. On the PTO’s web site for press releases, in the window of time visible, this is the only comment period so announced. Burying a notice in a *sui generis* “press release” is questionable with respect to the Constitutional due process standard, “notice reasonably calculated, under all the circumstances, to apprise interested parties of the pendency of the action and afford them an opportunity to present their objections.” *Mullane*, *supra* note 54.

<sup>57</sup> § 552(a)(2)(E).

<sup>58</sup> § 552(a)(2)(E)(i) and (ii).

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<sup>59</sup> § 552(a)(2)(E).

<sup>60</sup> ATTORNEY GENERAL’S MANUAL, note 33 *supra*, at 17.

<sup>61</sup> *NLRB v. Sears, Roebuck & Co.*, 421 U.S. 132, 153 (1975); *Kent Corp. v. NLRB*, 530 F.2d 612, 618 (5th Cir. 1976)

<sup>62</sup> *Vaughn v. Rosen*, 484 F.2d 820 (D.C. Cir. 1973).

<sup>63</sup> *Acceleration Bay, LLC v. Activision Blizzard, Inc.*, \_\_\_ F.3d \_\_\_, \_\_\_, \_\_\_ USPQ2d \_\_\_, \_\_\_ (Fed. Cir. 2018).

<sup>64</sup> See generally Boundy, *Part 1: Rule Making Primer*, *supra* note 3.

a regulation that fills a gap in a statute (if the agency has a delegation of rulemaking authority). “Auer deference” applies to an agency’s interpretations of ambiguities in its own regulations (but not to gap-fills in regulations).<sup>65</sup>

Supreme Court precedent sets out a two-step analysis for analyzing an agency’s interpretation of an ambiguity, or filling of a gap. Under step one, a court asks whether a statute or regulation is either ambiguous, or whether the agency is operating under a grant of rulemaking authority.<sup>66</sup> Under step two, a court evaluates whether an agency’s interpretation (of an ambiguity in either a statute or regulation) or gap-fill (of a statute under a delegation of rulemaking authority) is “permissible” or “reasonable.”<sup>67</sup> If so, that interpretation or gap-fill is binding on the public, on courts, and on the agency itself, as if it had been promulgated as a regulation in the Code of Federal Regulations.<sup>68</sup>

*Chevron* and *Auer* only create a standard of review; they are not nonstatutory grants of additional rulemaking authority. A rule is only eligible for deference if it first meets all statutory requirements to be a valid rule, and ineligible if it is “procedurally defective.”<sup>69</sup> This can be seen in the trend since 2000: the pendulum at the Supreme Court has been steadily swinging in the direction of narrowing the range of agency interpretations that warrant deference. For example, in the 1990s, Justice Scalia was responsible for much of the expansion of *Chevron* deference and authored the majority opinion in *Auer* in 1997. He

also wrote a sharp dissent to the 2001 *Mead* decision (*Mead* was the beginning of the pendulum-swing back, to narrow *Chevron*).<sup>70</sup> But by the end of his life, Scalia had become *very* skeptical of the entire *Chevron/Auer* exercise, and was calling for overruling at least *Auer*.<sup>71</sup> In 2018, four Justices have urged that *Chevron* and/or *Auer* be reconsidered, and perhaps overruled.<sup>72</sup> All Justices have participated in a scaling-back of the scope of agency decisions eligible for *Chevron* or *Auer* deference by strictly construing steps zero, one, and two (and adding a number of “step three’s”) to *Chevron* and *Auer* deference.<sup>73</sup>

- Recent Supreme Court law holds that a rule may be eligible for *Chevron* or *Auer* deference *only* if it is not “procedurally defective.”<sup>74</sup> a rule must be

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<sup>70</sup> *Mead*, note 74 *infra*, 533 U.S. at 238-60 (Scalia, J., dissenting).

<sup>71</sup> *Perez*, *supra* note 17, 135 S.Ct. at 1212-13 (Scalia, J., concurring in judgment); *Decker v. Northwest Environmental Defense Center*, 568 U.S. 597, 616-21 (2013) (Scalia, J.); *Talk America, Inc. v. Michigan Bell Telephone Co.*, 564 U.S. 50, 68-69 (2011) (Scalia, J., concurring)

<sup>72</sup> *Garco Construction, Inc. v. Speer*, No 17-225 slip op. (Mar. 19, 2018) (Thomas and Gorsuch, J.) (dissenting from denial of cert, urging overruling of *Auer*); *Pereira v. Sessions*, No. 17-459 slip op. (Jun. 21, 2018) (Kennedy, J., concurring); *Arlington v. FCC*, 569 U. S. 290, 327 (2013) (Roberts, C. J., dissenting); *Michigan v. EPA*, 135 S.Ct. 2688, 2712-14 (2015) (Thomas, J., concurring); *Decker v. Northwest Environmental Defense Center*, 568 U.S. 597, 615-16 (2013) (Roberts and Alito acknowledging possibility of reconsidering *Auer*); *Gutierrez-Brizuela v. Lynch*, 834 F3d 1142, 1149-58 (10th Cir. 2016) (Gorsuch, concurring) (urging overruling of *Chevron*).

<sup>73</sup> Some of the narrowing of steps one and two, and the newly-added “step threes” are discussed in Parts 1 and 2 of this article series. See Boundy, *Part 1: Rulemaking Primer*, *supra* note 3 at 52-53; Boundy & Freistein, *Part 2: Aqua Products v. Matal*, *supra* note 4 at 47-49.

<sup>74</sup> The biggest change of direction in the *Chevron/Auer* line of cases is stated in two sentences, one in *Gonzales v. Oregon*, 546 U.S. 243, 255-56 (2006):

Deference in accordance with *Chevron*, however, is warranted only “when it appears that Congress delegated authority to the agency generally to make rules carrying the force of law, and that the

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<sup>65</sup> *Chevron U.S.A., Inc. v. Nat. Res. Def. Council, Inc.*, 468 U.S. 837 (1984); *Auer v. Robbins*, 519 U.S. 452 (1997).

<sup>66</sup> *Chevron*, 468 U.S. at 842-43; *Auer*, 519 U.S. at 461-62; *Christopher v. SmithKline Beecham*, 567 U.S. 142, 155 (“*Auer* ordinarily calls for deference to an agency’s interpretation of its own ambiguous regulation,” with exceptions when “the agency’s interpretation is ‘plainly erroneous or inconsistent with the regulation’” or “when there is reason to suspect that the agency’s interpretation ‘does not reflect the agency’s fair and considered judgment on the matter in question.’”)

<sup>67</sup> *Chevron*, 468 U.S. at 843, 844; *Auer*, 519 U.S. at 462; *Christopher*, 567 U.S. at 155.

<sup>68</sup> *Chevron*, 468 U.S. at 844; *Auer*, 519 U.S. at 462; *Christopher*, 567 U.S. at 155.

<sup>69</sup> Note 74 *infra*.

validly promulgated with the level of procedure required by the APA and all other statutes before it can be eligible for *Chevron* or *Auer* deference. Neither *Chevron* nor *Auer* grants a waiver from otherwise-required procedure.<sup>75</sup> To be eligible

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agency interpretation claiming deference was promulgated in the exercise of that authority.”

and the other in *Encino Motorcars, LLC v. Navarro*, 579 U.S. \_\_\_, \_\_\_, 136 S.Ct. 2117, 2125 (2016):

*Chevron* deference is not warranted where the regulation is ‘procedurally defective’—that is, where the agency errs by failing to follow the correct procedures in issuing the regulation.

See also *United States v. Mead Corp.*, 533 U.S. 218, 227 (2001) (an agency gap-filling regulation is entitled to *Chevron* deference “unless procedurally defective, arbitrary or capricious in substance, or manifestly contrary to the statute”). Since *Gonzales* in 2006, I know of no case in which the Supreme Court has affirmed an agency *gap fill* promulgated by less than full § 553 procedure maturing into a regulation. E.g., *Cuozzo Speed Technologies, LLC v. Lee*, 579 U.S. \_\_\_, \_\_\_, 136 S.Ct. 2131, 2144, 2146, 119 USPQ2d 1065, 1075, 1076 (2016) (because Congressional delegated authority, and the agency’s regulation is reasonable exercise of that authority, granting *Chevron* deference for a gap-fill promulgated as a notice-and-comment regulation); *E.P.A. v. EME Homer City Generation, L.P.*, 572 U.S. 489, \_\_\_, \_\_\_, 134 S.Ct. 1584, 1593, 1607 (2014) (same).

Though there’s no direct holding on the point, the emerging trend is that to be *Chevron*- or *Auer*-eligible, a rule must not be “procedurally defective,” that is, an agency must meet all statutory requirements for rulemaking. For example, the agency must give an explanation for its interpretation or gap-fill that would meet the *State Farm* criteria for promulgating an interpretative or legislative rule. *Encino Motorcars*, 136 S.Ct. at 2125 (an agency action is only eligible for deference if it includes a “reasoned explanation”); *Aqua Products*, *supra* note 5, 872 F.3d at 1321-22, 124 USPQ2d at 1275-76 (O’Malley lead plurality opinion) (because PTO failed to explain itself, declining *Chevron* deference). Similarly, in the 1990s, agencies were given *Chevron* deference for interpretations outside their rulemaking authority, but that ended in 2001, with the recognition of *Chevron* “step zero” in *Mead*, note 74 *supra*, 533 U.S. at 226-227.

<sup>75</sup> *Immigration and Naturalization Serv. v. Aguirre-Aguirre*, 526 U.S. 415, 424-25 (1999). This is the exception that proves the rule: the Supreme Court gave

for deference, a gap-fill must be made with legislative procedure, and an interpretation must be promulgated with more-than-routine formality, for example, in the Federal Register discussion of a newly-promulgated rule.<sup>76</sup> “[I]nterpretations contained in policy statements, agency manuals and enforcement guidelines ... do not warrant *Chevron* style deference.”<sup>77</sup>

- For gap-filling:

- *Chevron* “gap filling” authority exists only where expressly delegated by words such as “[t]he agency may promulgate regulations to ...” and after the agency undertakes the procedure required by the APA, Paperwork Reduction Act, and other statutes, to promulgate a regulation.<sup>78</sup>

- On the other hand, there’s no such thing as “*Auer* gap filling” for regulations: when an agency wants to regulate, it has to use statutory rulemaking procedure.<sup>79</sup>

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*Chevron* deference to an interpretation of the term “serious nonpolitical crime” arrived at by case-by-case adjudication, because (a) the statute grants rulemaking authority to the Attorney General, and (b) authority to the AG to further delegate, (c) the AG has delegated rulemaking authority to the Board of Immigration Appeals by regulation, and (d) the INS exercises “especially sensitive political functions that implicate questions of foreign relation.” *Aguirre* is a pre-*Mead* decision, so it’s an open issue whether it survives the “procedurally defective” requirement of *Mead* and *Gonzalez*.

<sup>76</sup> An *Auer*-eligible interpretation of regulation may be published with less formality than the Federal Register. E.g., *Talk America*, note 71 *supra*, 564 U.S. at 59 (giving *Auer* deference to an interpretation of regulation in a triennial publication).

<sup>77</sup> *Christensen*, note 79 *infra*, 529 U.S. at 587

<sup>78</sup> *Encino Motorcars*, 579 U.S. at \_\_\_, 136 S.Ct. at 2125 (2016); see also *Cuozzo*, 579 U.S. at \_\_\_, 136 S.Ct. at 2144, 119 USPQ2d at 1075; *EME Homer*, 572 U.S. at \_\_\_, 134 S.Ct. at \_\_\_.

<sup>79</sup> 35 U.S.C. § 553; *Christensen v. Harris Co.*, 529 U.S. 576, 588 (2000) (“In *Auer*, we held that an agency’s interpretation of its own regulation is entitled to deference. But *Auer* deference is warranted *only* when the language of the regulation is *ambiguous*,” citations and quotations omitted, emphasis added); *Aqua Products*, *supra* note 5, 872 F.3d at 1316, 124 USPQ2d

- An agency gap-fill that fails any precondition for *Chevron* deference is simply invalid.<sup>80</sup>
- For interpretations, *Chevron*- and *Auer*-eligible interpretations arise only where a validly-promulgated statute or regulation contains an “active” ambiguity, such as an ambiguous term, an aspirational or general term, or a conflict;<sup>81</sup> a passive silence usually leaves any underlying (usually permissive) default in place. Though in past decades, *Chevron* applied quite broadly, in 2018, the emerging trend is that mere “consistent with” or “not negated” are not valid bases for a *Chevron*- or *Auer*-eligible interpretation.<sup>82</sup>
  - An agency interpretation of statute may be eligible for *Chevron* deference if it only interprets, if it only gives ambiguous statutory terms “concrete meaning through a process of case-by-case adjudication,”<sup>83</sup> and is issued by regulation, by precedential formal adjudication by a tribunal with rulemaking authority, or by some other agency action with similar “lawmaking pretense.”<sup>84</sup>
  - For interpretations of regulation, if the agency has made a good-faith effort to cover a “wide range” of questions, remaining interstitial and interpretative questions may be resolved by less-formal means, such as precedential decision, formally-issued guidance, and the like,<sup>85</sup> but the guidance must bear some level of formality, and parties must have fair

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at 1272 (O’Malley lead plurality opinion) (“*Auer* does not authorize an agency to rewrite its regulations in the guise of ‘interpretation.’”).

<sup>80</sup> *E.g.*, *Aqua Products*, *supra* note 5.

<sup>81</sup> *E.g.*, *Lopez v. Terrell*, 654 F.3d 176, 181 (2d Cir. 2011); Anthony, note 16, 41 DUKE L.J. at 1312-13.

<sup>82</sup> *E.g.*, *Christensen*, note 79, *supra*.

<sup>83</sup> *E.g.*, *Aguirre-Aguirre*, note 75 *supra*, 526 U.S. at 425 (deference for Board of Immigration Appeals interpretation of “serious nonpolitical crime”); *National Railroad Passenger Corp. v. ICC*, 503 U.S. 407, 418-19 (1992) (*Chevron* deference to interpretation of “required for intercity rail service” stated in ICC order).

<sup>84</sup> *Mead*, note 74 *supra*, 533 U.S. at 233; *Aguirre-Aguirre*, note 75 *supra*, 526 U.S. at 425.

<sup>85</sup> *E.g.*, *Shalala v. Guernsey Memorial Hosp.*, 514 U.S. 87, 96 (1995).

advance notice.<sup>86</sup> And the agency’s adjudicatory tribunal may have authority to act by order in individual cases.<sup>87</sup> But *Auer* deference is not a license to improvise or rewrite regulations on the fly.<sup>88</sup>

- An agency interpretation that fails any of the preconditions for deference falls back into the default for “interpretative rules” of § 553(b)(A), and *Skidmore* deference.

Under this emerging understanding, the “gap-filling” and “interpretation” prongs of *Chevron* and *Auer* are analytically separate, paralleling the separation between legislative rules and interpretative rules under § 553. *Chevron* and *Auer* only accord a degree of judicial deference, not additional agency authority.

Most *Chevron* or *Auer* cases involve agency pronouncements in the Federal Register. So let’s take a minute to look at agency rulemaking-by-adjudication (as opposed to Federal Register publication), and then come back in § II.F to tie up various concepts.

#### **II.D. Rulemaking by adjudication: agencies can interpret, but not gap fill or otherwise regulate on the fly**

Executive branch agencies are not Article III courts.<sup>89</sup> For agencies, adjudication is adjudication (governed by APA §§ 554 or 555), rulemaking is rulemaking (governed by § 553), separated by a “dichotomy,”<sup>90</sup> and the two mix only to a limited extent. Sometimes an agency’s adjudicatory procedures overlap with a corner of the APA’s rulemaking procedure. In that overlap, an agency may, by adjudication, create rules of prospective effect as a side effect of adjudicating a current issue. But *only* in that area of overlap.

Two contrasting Supreme Court decisions illustrate when rulemaking-by-adjudication is permissible and when it is not. Both decisions involved the National Labor Relations Board (NLRB). The NLRB has two properties that, in combination, place the NLRB at the

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<sup>86</sup> *E.g.*, *Sun Capital Partners III, L.P. v. New England Teamsters & Trucking Indus. Pension Fund*, 724 F.3d 129, 140-41 (1st Cir. 2013).

<sup>87</sup> *Wyman-Gordon*, note 92 *infra*, 394 U.S. at 768-69.

<sup>88</sup> *Christensen*, note 79 *supra*, 529 U.S. at 587.

<sup>89</sup> See note 6, *supra*.

<sup>90</sup> ATTORNEY GENERAL’S MANUAL, note 33 *supra*.

high-water mark of agency power to create rules by adjudication: (a) the NLRB has a very broad, general grant of rulemaking authority, “to make . . . such rules and regulations as may be necessary to carry out the provisions of this Act,” and (b) the NLRB has combined rulemaking and adjudicatory powers, combined in a single agency head.<sup>91</sup>

In the first of the two cases, *NLRB v. Wyman-Gordon Co.* from 1969, the NLRB had attempted to create a rule beyond the text of any statute or regulation—not in *conflict*, merely *beyond*—by adjudication, as if the NLRB were an Article III common law court.<sup>92</sup> The NLRB rule that preceded *Wyman-Gordon* was a non-interpretative rule—employers were required to provide employee lists to unions—promulgated with no grounding in statute or regulation (both were silent, neither forbidding nor permitting such a list), only on the NLRB’s precedential decision.<sup>93</sup> When the rule was challenged, the NLRB pointed to its broad grant of rulemaking authority, and there was no disagreement that the NLRB’s rule was within that authority.<sup>94</sup> But the NLRB was unable to demonstrate *exercise* of that rulemaking authority via proper procedure.<sup>95</sup> The Supreme Court invalidated the agency’s rule, and reminded the NLRB of the rulemaking requirements of the APA, as follows:

The Board asks us to hold that it has discretion to promulgate new rules in adjudicatory proceedings, without complying with the requirements of the Administrative Procedure Act.

The rule-making provisions of [the APA], which the Board would avoid, were designed to assure fairness and mature consideration of rules of general application. They may not be avoided by the process of making rules in the course of adjudicatory proceedings. There is no warrant in law for the Board to replace the statutory scheme with a rule-making procedure of its own invention . . .

[T]he Board purported to make a rule: *i.e.*, to exercise its quasi-legislative power . . . Adjudicated

cases may and do, of course, serve as vehicles for the formulation of agency policies, which are applied and announced therein . . . They generally provide a guide to action that the agency may be expected to take in future cases. Subject to the qualified role of *stare decisis* in the administrative process, they may serve as precedents. But this is far from saying, as the Solicitor General suggests, that commands, decisions, or policies announced in adjudication are “rules” in the sense that they must, without more, be obeyed by the affected public.<sup>96</sup>

Even with that combined authority, the NLRB was not permitted to promulgate a *new* rule without statutory rulemaking procedure.

The contrasting case, involving an *interpretation*, arose only five years later, in *NLRB v. Bell Aerospace Co.*<sup>97</sup> The Supreme Court granted that NLRB procedures in *interpreting an ambiguous term* (the term “managerial employees” in a labor statute) had overlapped with the procedural requirements of § 553 for interpretative rules, and then held that, in that area of overlap, the NLRB had the choice to act by adjudication or by rulemaking.<sup>98</sup> For a combined-authority agency head, when acting to interpret ambiguity:

[T]he [NLRB] had both adjudicative and rule-making powers and that the choice between [rulemaking and adjudication] was ‘within its informed discretion. . . . [T]he [NLRB] is not precluded from announcing new principles in an adjudicative proceeding and that the choice between rulemaking and adjudication lies in the first instance within the [NLRB’s] discretion.’<sup>99</sup>

In addition, some rules-by-adjudication may qualify for (non-statutory) *Chevron* or *Auer* deference, if they meet all the conditions.<sup>100</sup> However, since 2001, the Supreme Court has been cutting back on the scope of agency actions entitled to deference.<sup>101</sup> So, in 2018, there’s a range of PTAB adjudications for which deference is an open question. However, much is clear. Several circuits have drawn a bright line, requiring full APA “formal adjudication” for

<sup>91</sup> 29 U.S.C. § 156 (rulemaking); § 159 (adjudication).

<sup>92</sup> *NLRB v. Wyman-Gordon Co.*, 394 U.S. 759, 761 (1969)

<sup>93</sup> *Wyman-Gordon*, 394 U.S. at 761-62.

<sup>94</sup> *Wyman-Gordon*, 394 U.S. at 765.

<sup>95</sup> *Wyman-Gordon*, 394 U.S. at 765.

<sup>96</sup> *Wyman-Gordon*, 394 U.S. at 764-66.

<sup>97</sup> *NLRB v. Bell Aerospace Co.*, 415 U.S. 267, 294 (1974)

<sup>98</sup> *Bell Aerospace*, 415 U.S. at 276.

<sup>99</sup> *Bell Aerospace*, 415 U.S. at 294.

<sup>100</sup> See § ILC; *Aguirre-Aguirre*, note 75 *supra*.

<sup>101</sup> See cases cited in notes 74, 102, 103, 105, 106.

deference to a rule originating in a relatively-recent adjudication.<sup>102</sup> I am not aware of any Supreme Court case since *Gonzalez v. Oregon* in 2006<sup>103</sup> granting *Chevron* or *Auer* deference to a gap-fill promulgated by less than notice-and-comment rulemaking or full-dress §§ 554/556/557 formal adjudication—indeed, the Court made clear that *Auer* only permits interpretation of ambiguity, not gap-filling.<sup>104</sup> It appears that no case has granted *Chevron* deference to a rule that is stated only in recent, non-precedential decisions.<sup>105</sup> At the least, a rule established by adjudication must reflect consideration, consensus, and “fair and considered judgment” by the entire agency, accompanied by a “reasoned explanation,”<sup>106</sup>

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<sup>102</sup> *E.g.*, *Stapleton v. Advocate Health Care Network*, 817 F.3d 517, 530 (7th Cir., 2016) (“It is tempting indeed to turn to [*Chevron* deference], but we can do so only when the opinions of that agency are expressed after a ‘formal adjudication or notice and comment rulemaking.’”); *Beaver v. Tarsadia Hotels*, 816 F.3d 1170, 1182 (9th Cir. 2016); *Kaplan v. Saint Peter’s Healthcare Sys.*, 810 F.3d 175, 185 (3rd Cir., 2015); *Sierra Club v. ICG Hazard, LLC*, 781 F.3d 281, 287 (6th Cir. 2015); *but see Barnhart v. Walton*, 535 U.S. 212, 222 (2002) (applying *Chevron* deference to an interpretation that had been set forth in a series of informal adjudications, after first being stated in an agency manual some 30 years earlier, because of “the careful consideration the Agency ha[d] given the question over a long period of time” and other factors).

<sup>103</sup> *Gonzales*, note 74 *supra*, 546 U.S. at 255-56 (2006) (“Deference in accordance with *Chevron*, however, is warranted only “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,” emphasis added).

<sup>104</sup> *See Christensen*, note 79, *supra*.

<sup>105</sup> *E.g.*, *Fogo De Chao (Holdings) Inc. v. U.S. Dep’t of Homeland Sec.*, 769 F.3d 1127 (D.C. Cir., 2014) (denying *Chevron* deference: “Moreover, the expressly non-precedential nature of the Appeals Office’s decision conclusively confirms that the Department was not exercising through the Appeals Office any authority it had to make rules carrying the force of law.”).

<sup>106</sup> *Encino Motorcars, LLC v. Navarro*, 136 S.Ct. 2117, 2125 (2016) (an agency action is only eligible for deference if it includes a “reasoned explanation”); *Motor Vehicle Mfrs. Ass’n v. State Farm Mutual Auto. Ins. Co.*, 463 U.S. 29, 41–43 (1983) (factors for evaluating “reasoned decisionmaking”); *Mead*, note 74 *supra*, 533

rather than being an *ad hoc* opinion expressed by a few decision-makers.

## II.E. The “Housekeeping Act,” 5 U.S.C. § 301

The “Housekeeping Act,” 5 U.S.C. § 301, gives an agency power to bind its own employees by informal documents.<sup>107</sup> The law of “housekeeping rules” can be summed up in one word—asymmetry.

- To bind the public, an agency must satisfy all applicable rulemaking statutes that protect the public,<sup>108</sup> while the agency can bind its employees at the stroke of a pen (notice the light procedure granted by § 553(a)(2)).<sup>109</sup>
- Regulations that use mandatory language directed to employees are absolutely binding.<sup>110</sup> Agencies have no discretion whatsoever to depart or create carve-outs to the detriment of the public, whether as *ad hoc* one-offs or systematically in published guidance, except by promulgating replacement regulations with full rule making formalities.<sup>111</sup>
- The general power to promulgate rules for agency employees arises under the Housekeeping

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U.S. at 230-31 (no deference for decisions reached without formality that ensures agency deliberation and consensus); *Christopher v. SmithKline Beecham Corp.*, 567 U.S. 142, 155 (2012) (“deference is ... unwarranted when there is reason to suspect that the agency’s interpretation ‘does not reflect the agency’s fair and considered judgment’”).

<sup>107</sup> “Housekeeping rules” and their binding effect against agency personnel are introduced at in Part 1 of this article series. *See* Boundy, *Part 1: Rulemaking Primer*, *supra* note 3 at 54-55.

<sup>108</sup> *see* notes 121, *Chrysler Corp. v. Brown*, 441 U.S. at 303.

<sup>109</sup> 5 U.S.C. § 301, § 553(a)(2)).

<sup>110</sup> *See* note 111.

<sup>111</sup> *Berkovitz v. United States*, 486 U.S. 531, 544 (1988) (“The agency has no discretion to deviate” from the procedure mandated by its regulatory scheme); *see Perez*, *supra* note 17, 135 S.Ct. at 1206-07 (amendment to an agency rule requires the same level of procedure that was used in promulgating the rule in the first place (so long as that level was adequate)); *Good Guidance Bulletin*, *infra* at note 396 at § II(1)(b) (“Agency employees should not depart from significant guidance documents without appropriate justification and supervisory concurrence.”).

Act, 5 U.S.C. § 301. The Patent Act goes a step further, and raises this to a duty: the Director and Commissioners of the USPTO are required by statute to “manage and direct *all* activities” relating to patents, and to ensure that examination is carried out in a “fair, impartial, and equitable manner.”<sup>112</sup> The Paperwork Reduction Act and *Good Guidance Bulletin* require that guidance be specific enough to “channel the discretion of agency employees,” to ensure that agency employees employ fair, consistent decision-making standards, and that the agency avoids shifting costs to the public.<sup>113</sup>

- For non-regulation guidance using mandatory language directed to agency employees, the well-known *Accardi* principle governs.<sup>114</sup> Once an

agency issues guidance that uses mandatory language to state obligations of agency employees with respect to “important procedural benefits” to the public, or publishes an “interpretative” rule interpreting the agency’s statute or regulation, agency employees (including ALJs) are bound, the public is entitled to rely on employees’ observing the guidance, and the agency is obligated to enforce the procedural commitments it makes to the public.<sup>115</sup> When the PTO issues promises to the public that the PTO will observe minimum procedural standards (evidence, explanations, elements of reasoning) in explaining any adverse action, the public is entitled to reply on those promises, and they are binding against agency

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<sup>112</sup> 35 U.S.C. § 3(a)(2)(A) and § 3(b)(2)(A).

<sup>113</sup> Paperwork Reduction Act and its implementing regulations, 44 U.S.C. § 3506(c)(3)(D), 5 C.F.R. § 1320.9(d) (rules that request the public to submit information must be “written using plain, coherent, and unambiguous terminology. “); *Dole v. United Steelworkers of America*, 494 U.S. 26, 32 (1990) (“The [Paperwork Reduction Act] requires ‘Agencies ... to minimize the burden on the public to the extent practicable. See 44 U.S.C. § 3507(a)(1).’”); *Moon v. U.S. Dep’t of Labor*, 727 F.2d 1315, 1318 (D.C. Cir. 1984) (“an agency must provide a reasoned explanation for its actions and articulate with some clarity the standards that governed its decision. “); *Good Guidance Bulletin*, *infra* at note 396, Introduction, 72 Fed. Reg. at 3432 (urging agencies to use guidance to “channel the discretion of agency employees, increase the efficiency, and enhance fairness by providing the public clear notice of the line between permissible and impermissible conduct while ensuring equal treatment of similarly situated parties”).

<sup>114</sup> This is conventional administrative law: guidance is binding against agency employees. The general principle, that an agency’s guidance documents bind all agency employees, until the agency itself amends that guidance, originates in *Accardi v. Shaughnessy*, 347 U.S. 260 (1954), and has been reiterated by the Supreme Court about a dozen times, and many dozen more by the Federal Circuit. A case nearly on all fours with the typical MPEP statement, as a matter of procedure, issues that must be addressed underlying a substantive decision, is *Service v. Dulles*, 354 U.S. 363, 386–88 (1957) (once an agency adopts an employee staff manual, even though unpublished, “having done so [the Secretary of State] could not, so long as the [staff manual] remained unchanged, proceed without regard to them”). See also

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*Vitarelli v. Seaton*, 359 U.S. 535, 539–40 (1959) (even though the agency had unlimited discretion to fire an employee, after it did so, but in violation of the agency’s unpublished guidance, reversing and requiring the agency to observe its guidance); *Vitarelli*, 359 U.S. at 546–47 (Frankfurter, J. concurring) (“An executive agency must be rigorously held to the standards by which it professes its action to be judged. Accordingly, if dismissal from employment is based on a defined procedure, even though generous beyond the requirements that bind such agency, that procedure must be scrupulously observed.”); *Yale-New Haven Hospital v. Leavitt*, 470 F.3d 71, 80 (2nd Cir. 2006) (“Despite some hedging elsewhere, the 1986 Manual Provision was cast in *per se* terms [it had some binding effect]. ... An interpretative rule [in an agency manual] binds an agency’s employees, including its ALJs,” citations and quotations omitted); *Warder v. Shalala*, 149 F.3d 73, 82 (1st Cir. 1998) (“[A] rule may lack [force and effect of law] and still bind agency personnel.”); *Zhang v. Slattery*, 55 F.3d 732,748 (2d Cir. 1995) (“We have ruled, however, that a regulation need not necessarily be published in order to be enforced *against* the government.”); *New England Tank Industries of New Hampshire v. United States*, 861 F.2d 685, 688, 694 (Fed. Cir. 1988). An agency staff manual may be binding against agency employees even though it has not been published with the requisite formalities necessary to give it “force of law” against the public. *New England*, 861 F.2d at 694 n.17. An agency has authority to amend its guidance after due deliberation and without notice-and-comment, but employees do not have individual authority to depart without appropriate justification and supervisory concurrence.

<sup>115</sup> See cases cited note 114.

employees.<sup>116</sup> This guidance is binding even if the document is not published.<sup>117</sup> Agency action in violation of a housekeeping rule is “void” or “illegal and of no effect.”<sup>118</sup>

- On the other hand, agencies are free to relax non-statutory rules (whether in regulations or guidance) in favor of lenity toward a party: “It is always within the discretion of . . . an administrative agency to relax or modify its procedural rules adopted for the orderly transaction of business before it when in a given case the ends of justice require it.”<sup>119</sup> Cases that state this freedom to relax reiterate that it is an asymmetric freedom: agencies may not relieve themselves of rules intended primarily “to confer important procedural benefits upon individuals” in the face of otherwise unfettered discretion.<sup>120</sup>
- Amendments to “recognize[] an exemption or relieve[] a restriction” in favor of the public can be promulgated on simple notice (§ 553(d)(1));

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<sup>116</sup> *In re Kagan*, 387 F.2d 398, 401, 156 USPQ 130, 132 (CCPA 1967) (“we feel that an applicant should be entitled to rely not only on the statutes and Rules of Practice but also on the provisions of the MPEP in the prosecution of his patent application.”); *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1425, 7 USPQ2d 1152, 1154 (Fed. Cir. 1988) (same).

<sup>117</sup> *E.g.*, *Service v. Dulles*, 354 U.S. at 386–88.

<sup>118</sup> *Vitarelli v. Seaton*, 359 U.S. 535, 545 (1959) (holding that an agency action was “illegal and of no effect” because the agency’s dismissal “fell substantially short of the requirements of the applicable department regulations”); *Service v. Dulles*, 354 U.S. 363, 386–88 (1957) (finding that an unpublished manual was binding, and violation of that manual was a ground for setting aside agency action).

<sup>119</sup> *American Farm Lines v. Black Ball Freight Serv.*, 397 U.S. 532, 539 (1970).

<sup>120</sup> *City of Fredericksburg, Va. v. Fed. Energy Regulatory Comm’n*, 876 F.2d 1109, 1112 (4th Cir. 1989) (“*American Farm Lines* held that an administrative agency has discretion to relax or modify internal housekeeping regulations . . . . However, the exception announced in *American Farm Lines* does not apply if the agency regulations were intended ‘to confer important procedural benefits upon individuals’ or other third parties outside the agency. The applicability *vel non* of *American Farm Lines* thus turns on whether the regulation . . . was designed to aid [the agency] or, instead, to benefit outside parties.” (citations omitted)).

rules, amendments, or carve-outs to raise burdens on the public must go through statutory rule making procedure as applicable.<sup>121</sup>

The asymmetry arises from a very simple contrast: rules to bind agency employees arise under one head of authority (5 U.S.C. § 301), and rules to bind the public under another (the agency’s organic statute, and 5 U.S.C. § 553). The two classes require different procedure for promulgation, have different standards for intra-agency enforcement, and have different standards for waiver.

#### **II.F. Synthesis—when can an agency promulgate a rule by common law adjudication, and when not? The “only if’s”**

Pulling the strands of the case law together, adjudicatory decisions may mature into rules binding on the public—

- *Only if* the agency as a whole has relevant rulemaking authority under its organic statute.<sup>122</sup>
- *Only where* the agency’s rulemaking delegation permits the agency to act by “rule” or “procedure,” without requiring “regulation” or “in accordance with 5 U.S.C. § 553.”<sup>123</sup> Except to interpret ambiguity, an agency cannot act by

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<sup>121</sup> *E.g.*, §§ 552 and 553 of the APA, 5 U.S.C. §§ 604 and 605 of the Regulatory Flexibility Act, 44 U.S.C. §§ 3506 and 3507 of the Paperwork Reduction Act, Executive Order 12,866, etc.

<sup>122</sup> *E.g.*, *Mead*, note 74 *supra*, 533 U.S. at 226-227.

<sup>123</sup> *See NLRB v. Wyman-Gordon*, 394 U.S. at 764-66, note 96 *supra* and discussion in § II.D. (in light of the requirement of 29 U.S.C. § 156 that the NLRB act by regulation “in the manner prescribed by [5 U.S.C. §§ 551 to 559] such rules and regulations as may be necessary to carry out the provisions of this subchapter,” NLRB may not act by common law); *Aqua Products*, *supra* note 5, 872 F.3d at 1325, 124 USPQ2d at 1277 (O’Malley, J., plurality opinion) (a PTAB decision is not a “regulatory action”); 872 F.3d at 1329-34, 124 USPQ2d at 1280-84 (Moore, J., concurring) (noting the contrast between “regulation” vs. “rule,” and noting that Patent Act and *Chevron* require the PTO to act by *regulation*, not by common law); 872 F.3d at 1339, 124 USPQ2d at 1287 (Reyna, J. concurring, for the swing votes) (“The Patent Office cannot effect an end-run around its congressionally delegated authority by conducting rulemaking through adjudication without undertaking the process of promulgating a regulation. . . .”).

common law where the statute requires “by regulation.”

- *Only to the extent* that either:
  - The agency’s organic statute unifies rulemaking authority and adjudicatory authority in a single agency head (*e.g.*, the NLRB, Interstate Commerce Commission, and Federal Trade Commission, which have unified authority, but not the PTO),<sup>124</sup> *and/or*
  - That agency adjudication is a “formal adjudication” under APA § 554. Though I know of no example case, I imagine that this element could be satisfied by a § 555 informal adjudication, if the agency proceeds with sufficient procedural formality, agency deliberation, and explanation to satisfy a court that the adjudicator’s interpretation reflects “fair and considered judgment” and policy-balancing of the entire *agency* (which almost always requires that the decision be designated “precedential” and involves full review by the agency head).<sup>125</sup>

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<sup>124</sup> *Martin v. Occupational Safety & Health Review Comm’n*, 499 U.S. 144, 154 (1991) (“[W]e concluded that agency adjudication is a generally permissible mode of law-making and policymaking only because the unitary agencies in question also had been delegated the power to make law and policy through rulemaking.”); *NLRB v. Bell Aerospace Co.*, 415 U.S. 267, 294 (1974). In every case that I know of in which an agency adjudicatory tribunal issued a decision that warranted *Chevron* deference (*e.g.*, those noted in note 83), two things were both true: (a) the tribunal at issue has both adjudicatory and rulemaking powers, and (b) the tribunal operates under the “formal adjudication” procedures of §§ 554, 556, and 557. American Bar Ass’n, A GUIDE TO JUDICIAL AND POLITICAL REVIEW OF FEDERAL AGENCIES, John Duffy, ed. § 4.022 at 106, ABA Press 2005 (“*Chevron* deference to interpretations expressed through formal adjudications requires that the interpreting agency have some policymaking power, as opposed to purely adjudicatory powers. If the agency is solely an adjudicator, not contemplated by Congress to set policy through the adjudication process by, for example, resolving interpretive questions in the course of its adjudications, courts are unlikely to extend *Chevron* deference.”).

<sup>125</sup> See notes 75 and 106 *supra*. For example, in *Natural Ass’n of Waterfront Employees v. Chao*, 587 F.Supp.2d 90, 100-101 (D.D.C. 2008), the court struck

○ I am quite certain that for a *Chevron*-eligible interpretation of statute, these two conditions are joined by “and.”<sup>126</sup> For an *Auer*-eligible interpretation of a regulation, the connector is probably “or” or some balancing test that is weaker than “and.” I know of no case directly on point for either proposition; I’m only inferring from examples.

- *Only if no statute requires otherwise*—that is, only if the rule fits the “interpretative,” “statement of policy,” or “procedural” exemptions of § 553(b)(A) and § 553(d), and no other statute (such as § 2(b)(2)(B) of the Patent Act<sup>127</sup> or § 3506(c)(2)(A) of the Paperwork Reduction Act) requires notice and comment.
- If an agency relies on the “interpretative” exemption from notice and comment under § 553, the agency may create a rule by adjudication *only as* an interpretation of an “active” ambiguity. Gap-filling of a *regulation* via guidance is ineligible for *Auer* deference.<sup>128</sup>
- *Only if* the agency explains itself sufficiently to meet the standards of *Chenery* and *State Farm*.<sup>129</sup>
- *Only if* the agency publishes the decision with notice as required by § 552.<sup>130</sup>

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down a rule promulgated by the agency’s Chief ALJ, even though he had delegated authority from the agency to administer the relevant area, because the Chief ALJ did not have *rulemaking* authority in that area.

<sup>126</sup> See note 83 *supra*.

<sup>127</sup> At least one court has held that “the structure of [35 U.S.C. § 2(b)(2)] makes it clear that the USPTO must engage in notice and comment rule making when promulgating rules it is otherwise empowered to make—namely, procedural rules.” *Tafas v. Dudas*, 541 F.Supp.2d 805, 812, 86 USPQ2d 1623, 1628 (E.D. Va. 2008), *reinstated sub nom. Tafas v. Kappos*, 586 F.3d 1369, 1371, 92 USPQ2d 1693, 1694 (Fed. Cir. 2009). The PTO acquiesced and bound itself when it moved to dismiss the *Tafas* appeal on grounds of mootness.

<sup>128</sup> *Christensen*, note 79, *supra*, 529 U.S. at 588, further discussed in Boundy & Freistein, *Part 2: Aqua Products v. Matal*, *supra* note 4.

<sup>129</sup> See cases cited in note 106.

<sup>130</sup> See § II.B.2.

## II.G. PTAB rulemaking and prospective effect of past decisions

The “only if’s” of § II.F, for a binding rule-by-adjudication, can seldom (if ever) be satisfied by a PTAB adjudication:

- With the exception of the “islands” of § II.A and the few issues noted below in § III.B, no statute grants the PTO (let alone the PTAB) authority to promulgate substantive rules. The Federal Circuit has reminded the PTAB regularly that “[The Board] must follow judicial precedent instead of [PTO-formulated substantive rules] because the PTO lacks the substantive rulemaking authority to administratively set aside judicial precedent.”<sup>131</sup>
- All statutes in the Patent Act that grant rulemaking authority delegate that authority to the Director, not the PTAB.<sup>132</sup> The PTAB has neither rulemaking nor policy-setting authority on behalf of the PTO—policy setting and rulemaking authority are delegated to the Secretary of Commerce and Director, not the PTAB.<sup>133</sup>
- Similarly, most statutes that grant rulemaking authority to the PTO only grant the PTO authority to act by *regulation*, not by common law, guidance, and similar informal means.<sup>134</sup>
- For decades, the PTO (and Board) satisfied the “publication” requirement by publishing elevated-status decisions in the United States Patents Quarterly (USPQ). That stopped somewhere around 2010.<sup>135</sup> Since 2014, the USPQ has only published one or two PTAB decisions per year (while TTAB decisions

continue to appear in the USPQ at a rate of nearly one per week). Until April 2018, the PTAB’s web site<sup>136</sup> failed to meet the “indexing” requirements of § 552.<sup>137</sup>

Like any other agency adjudicatory tribunal, the PTAB may interpret *ambiguities*, and apply those interpretations in individual cases.<sup>138</sup> However, the effect for future cases is governed by the same rulemaking law that applies to any other agency, and is asymmetric:

- The PTAB may “interpret” active ambiguities in statute or regulation,<sup>139</sup> but may not gap-fill unless the Director exercises full legislative procedure to promulgate a “regulation.”<sup>140</sup>
- Against the public, the PTO may not rely on an interpretation that fails any of the “only if’s” of § II.F as the last word on a subject (unless the interpretation meets the formalities of *Chevron* or *Auer* deference<sup>141</sup>); rather, the PTO must entertain and respond to alternative positions.<sup>142</sup>

<sup>136</sup>

<https://www.uspto.gov/patents-application-process/patent-trial-and-appeal-board/precedential-informative-decisions> was first published as consolidated list with some rudiments of indexing in April 2018. Before that, precedential and informative decisions were listed at <https://www.uspto.gov/patents-application-process/appealing-patent-decisions/decisions-and-opinions/precedential> and [../informative-opinions-0](https://www.uspto.gov/patents-application-process/appealing-patent-decisions/decisions-and-opinions/informative-opinions-0)

<sup>137</sup> See notes 158-161 and accompanying text.

<sup>138</sup> 5 U.S.C. § 553(b)(A); see note 28.

<sup>139</sup> 5 U.S.C. § 553(b)(A).

<sup>140</sup> 35 U.S.C. § 2(b)(2)(B) (Director may promulgate procedural “regulations” with § 553 procedure); §§ 316(a), 326(a) (“The Director shall prescribe regulations”); *Tafas v. Dudas*, 541 F.Supp.2d 805, 812, 86 USPQ2d 1623, 1628 (E.D. Va. 2008) (“the structure of [35 U.S.C. § 2(b)(2)] makes it clear that the USPTO must engage in notice and comment rule making when promulgating rules it is otherwise empowered to make—namely, procedural rules”), *reinstated sub nom. Tafas v. Kappos*, 586 F.3d 1369, 1371, 92 USPQ2d 1693, 1694 (Fed. Cir. 2009).

<sup>141</sup> See § II.C, and a lengthy exploration of the availability of *Chevron* and *Auer* deference to PTAB decisions in Boundy & Freistein, *Part 2: Aqua Products v. Matal*, *supra* note 4.

<sup>142</sup> See note 17. An example of the PTAB’s misunderstanding of this principle is shown in *Ex parte Campbell*, App. Ser. No. 11/507,979, Appeal No. 2010-

<sup>131</sup> See cases cited in note 8.

<sup>132</sup> See § II.A, and notes 28, 40, and 43.

<sup>133</sup> 35 U.S.C. §§ 2(a) and 3(a)(2)(A); *Martin, supra* note 124 at 154 (“Insofar as Congress did not invest [the agency’s adjudicatory component] the power to make law or policy by other means, we cannot infer that Congress expected [the component] to use its adjudicatory power to play a policymaking role.”).

<sup>134</sup> See notes 28 and 43 *supra* and accompanying text.

<sup>135</sup> The last USPQ publication of a precedential or informative decision was *SecureBuy, LLC v. CardinalCommerce Corp.*, 111 USPQ2d 1739 (PTAB Apr. 25, 2014), and there had been a gap of several years before that.

- Against the PTO, the public may cite *any* prior decision, and the PTO must either honor its own past decision, or explain why it is not being followed.<sup>143</sup> When a party argues based on a PTAB nonprecedential opinion, the PTAB’s correct course is to note that the argument is based on a nonprecedential decision, and give both the prior panel and the party the respect to distinguish the nonprecedential decision much as if it were precedential.<sup>144</sup> The PTAB may not

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008367, <https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&fNm=fid2010008367-06-07-2012-2> at 6 n.6, 2012 WL 2090379 at \*1 (Jun. 8, 2012) (“As a precedential opinion, under agency authority (SOP 2), *Nehls* is binding on all members of the Board, and by extension, is also binding authority on every member of the public who files an appeal to the Board.”) That’s not correct. SOP2 is only a “housekeeping rule,” asymmetrically binding only the PTAB and only in contexts favorable to the public (see § II.E of this article). No PTAB decision on an issue of substantive law is any more than an “interpretative” rule (see §§ II.B.1 and III.C of this article), let alone “binding authority on the public.”

An introduction to *Chevron/Auer* deference and the asymmetric effect of informal agency statements appears in Parts 1 and 2 of this article series, *supra* note 3 and 4.

<sup>143</sup> *Atchison, Topeka and Santa Fe Rwy. v. Wichita Board of Trade*, 412 U.S. 800, 805–08 (1973) (“Whatever the ground for the departure from prior norms, ..., it must be clearly set forth so that the reviewing court may understand the basis for the agency’s action and so may judge the consistency of that action with the agency’s mandate.”); *Ramaprakash v. Federal Aviation Admin.*, 346 F.3d 1121, 1124-25 (D.C. Cir. 2003) (Roberts, J.) (an agency departing from its precedent must provide “a reasoned analysis indicating that prior policies and standards are being deliberately changed, not casually ignored. ... An agency’s failure to come to grips with conflicting precedent constitutes an inexcusable departure from the essential requirement for reasoned decisionmaking.”).

<sup>144</sup> *E.g., Costco Wholesale Corp. v. Robert Bosch LLC*, IPR2016-00038 paper no. 68, 2017 WL 1215754 at \*3, 2017 BL 480585 at \*9-\*10 (PTAB Mar. 30, 2017) (correctly noting that prior PTAB decision is routine and non-precedential, and then carefully analyzing to distinguish).

A search of PTAB decisions for “Standard Operating Procedure” or “SOP2” locate a number of decisions showing inaccurate understanding of the law. *Ex parte*

summarily dismiss an argument on the sole ground that the prior decision is nonprecedential.<sup>145</sup>

- On judicial review, if an interpretation satisfies a long list of conditions (the top few elements of that list are in § II.C of this article), it may be eligible for the stronger form of deference (*Chevron* or *Auer*), and if ineligible, then the weaker form of judicial deference (*Skidmore*).<sup>146</sup>

But the PTAB may *never* “gap fill” or otherwise create new rules on its own authority. Only when a decision meets the “only if”s of § II.F may the PTAB apply its own precedent as a final, preclusive, binding rule of decision against future parties before the PTAB.

*Chevron* and *Auer* deference to rules promulgated by adjudication, and the differences between the law and PTAB practice, are discussed in more detail in Parts 1 and 2 of this article series.<sup>147</sup>

The MPEP, *PTAB Trial Practice Guide*, and similar less-than-regulatory guidance slot into the same pigeonholes of § 553 as PTAB decisions, and have largely the same effect:

- Any language in the MPEP, *Trial Practice Guide* and other guidance directed to constrain PTO employees is binding against PTO employees,

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*Dominguez*, App. Ser. No. 12/903,916, Appeal No. 2016-008588, <https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&fNm=fid2016008588-04-03-2018-1> at 9-10, 2018 WL 1856737 at \*6 (PTAB Apr. 5, 2018); *Ex parte Kotobuki & Co.*, Reexamination Control 90/007,620, Appeal No. 2008-0829, <https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&fNm=fid20080829-06-27-2008-1> at 12-13, 12 n.9, 2008 WL 2577872 at \*6, \*6 n.9 (BPAI Jun. 27, 2008) (in a reexamination of an expired patent, citing several cases that had given “ordinary meaning” interpretation and none that had applied “broadest reasonable interpretation,” but nonetheless giving BRI, and giving only an explanation based on an irrelevant red herring).

<sup>145</sup> See note 143.

<sup>146</sup> See note 16.

<sup>147</sup> Boundy, *Part 1: Rulemaking Primer*, *supra* note 3 at 52; Boundy & Freistein, *Part 2: Aqua Products v. Matal*, *supra* note 4.

and the public is entitled to rely on such guidance.<sup>148</sup>

- Substantive interpretations adverse to the public are at best “interpretative rules,” and a party may advance alternative interpretations.<sup>149</sup>
- “Whole cloth” or “gap fill” rules against the public—any rule that goes beyond interpretation of ambiguity—are simply nugatory.<sup>150</sup>
- Procedural *interpretations* adverse to the public generally have only the weight of “interpretative” rules.<sup>151</sup> It’s conceivable that guidance interpretations of regulation could, in some situations, be entitled to *Auer* deference.<sup>152</sup>
- Statements using non-mandatory language are legitimate but non-binding “policy statements.”<sup>153</sup>

### III. The PTAB’s authority, and Standard Operating Procedure 2 (SOP2)

The PTAB’s Standard Operating Procedure 2, *Publication of Opinions and Designation of Opinions as Precedential, Informative, Representative, and Routine* (SOP2) states the PTAB’s view of its

“precedential,” “informative,” and “routine” opinions.<sup>154</sup>

#### III.A. Authority for SOP2 and precedential decisions—or lack thereof

SOP2 purports to announce procedures by which the PTAB can designate opinions as “precedential” by a “majority of the Board’s voting members” and concurrence of the Director (under Revision 9), or by a “Precedential Opinion Panel” (under Revision 10), apparently with the expectation that an opinion so-designated is to bind the public.<sup>155</sup>

SOP2 is not a statute, and has not been promulgated as a regulation. Thus, at best, SOP2 is an agency “housekeeping” rule that binds only agency employees, and has no effect against the public. It cannot confer jurisdiction or authority.

Perhaps the most striking feature of SOP2 is the silences: SOP2 identifies no statute that grants relevant rulemaking authority, does not explain compliance with § 553 of the APA (indeed § 553 is never mentioned), and does not identify an exemption from the rest of the administrative law that would authorize rulemaking action by the PTAB as an alternative to § 553.

The APA never mentions some alternative rulemaking procedure that involves a majority vote of an agency’s ALJ’s, or a Precedential Opinions Panel, even with concurrence of an agency head, as contemplated by SOP2. The D.C. Circuit considered a similar situation in which an agency had tried to bootstrap its own authority—a regulation that purported to grant authority to promulgate *ad hoc* rules—and found that attempt unlawful.<sup>156</sup>

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<sup>148</sup> *Kaghan, supra* note 116. The binding effect of procedural guidance arises under the Housekeeping Act and the *Accardi* principle, see § II.E *supra*, and notes 111 and 114, *supra*. The binding effect of substantive guidance arises under the principle that an agency’s interpretative rules bind agency employees, see note *Yale-New Haven Hospital and Warder v. Shalala, supra* note 114.

<sup>149</sup> See notes 8 and 17, *supra*, and Boundy, *Part 1: Rulemaking Primer, supra* note 3, at 52-54.

<sup>150</sup> See 5 U.S.C. § 553; note 52 *supra*.

<sup>151</sup> See notes 16 and 17, *supra*; and Boundy, *Part 1: Rulemaking Primer, supra* note 3, at 13, 52-54.

<sup>152</sup> See § II.C and Boundy & Freistein, *Part 2: Aqua Products v. Matal, supra* note 4 for an introduction to the preconditions necessary for a *Chevron*- or *Auer*-eligible interpretation. *But see Gray v Secretary of Veterans’ Affairs*, 875 F.3d 1102, 1109 (Fed. Cir. 2017) (in a case involving both statutes and regulations, “agencies’ interpretations contained in ... agency manuals ... do not warrant *Chevron*-style deference”), quoting *Christensen*, note 79, *supra*, 529 U.S. at 587.

<sup>153</sup> See notes 19-21, *supra*.

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<sup>154</sup> PTAB *Standard Operating Procedure No. 2 (Revision 9), Publication of Opinions and Designation of Opinions as Precedential, Informative, Representative, and Routine*, <https://www.uspto.gov/sites/default/files/documents/sop-2-revision-9-dated-9-22-2014.pdf> (Sep. 22, 2014); *Revision 10*, <https://www.uspto.gov/sites/default/files/documents/SOP-2%20R10%20FINAL.pdf> (Sept. 20, 2018).

<sup>155</sup> SOP2 Rev. 9, *supra* note 154, at § III(A); SOP2 Rev. 10, *supra* note 154, at § II,

<sup>156</sup> *United States v. Picciotto*, 875 F.2d 345, 347 (D.C. Cir. 1989) (a regulation that permitted the Park Service to impose “additional reasonable conditions ... and limitations” is an invalid attempt by the agency to

Bootstrapping didn't work for a regulation; it can't possibly work for mere guidance. Agencies cannot use nonstatutory means to grant themselves rulemaking authority.<sup>157</sup>

In addition to failing the requirements of § 553, SOP2 and the PTAB's practices with respect to its opinions fail the requirements for "notice," "indexing," and "separation" requirements of § 552.<sup>158</sup> To my knowledge, there has never been a Federal Register notice advising the public of SOP2 or the role of precedential, informative, or other opinions.<sup>159</sup> Before April 2018, the various lists on the PTO's web site were simply lists, with no "indexing" or "separation," so a member of the public had no meaningful way to locate decisions that might bear on a particular case, other than reading each one individually.<sup>160</sup> PTAB decisions refer to "constructive

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"grant itself a valid exemption to the APA for all future regulations."). With striking similarity, 37 C.F.R. § 42.5(a) purports to create off-the-cuff rulemaking authority to "determine a proper course of conduct in a proceeding for any situation not specifically covered by this part." Rule 42.5 is thin grounding for any rule that does not fall within § 553(b)(A) "interpretative" authority.

<sup>157</sup> *Wyman-Gordon*, *supra* notes 92 to 96.

<sup>158</sup> See §§ II.B.2 and II.B.3.

<sup>159</sup> The closest appears to be Patent Trial and Appeal Board, United States Patent and Trademark Office, *Amendments to the Rules of Practice for Trials Before the Patent Trial and Appeal Board; Proposed Rules*, RIN 0651-AD01, 80 Fed. Reg. 50719, 50738-39 (Aug. 20, 2015) and Request for Comments on Trial Proceedings Under the America Invents Act Before the Patent Trial and Appeal Board, 79 Fed. Reg. 36474, 36476 (Jun. 27, 2014), and *New collection; comment request*, 69 Fed. Reg. 11842 (Mar. 12, 2004), which tangentially mention SOP2, but are far short of an "incorporation by reference" or regulation that satisfy the APA to give "constructive notice" of where to look for PTAB decisions. The only statements in the Federal Register are that certain opinions do *not* have binding effect—there is no notice that any *do*.

<sup>160</sup> For example, the Wayback machine captures the "informative" page from June 2016 at <https://web.archive.org/web/20170627183030/https://www.uspto.gov/patents-application-process/appealing-patent-decisions/decisions-and-opinions/informative-opinions-0>.

notice" of these opinions<sup>161</sup>—but like any other "constructive notice" doctrine, if it exists at all, it exists under an identifiable law, and all such laws set preconditions. As of July 2018, the PTAB has not identified such a law, and has not met the preconditions of § 552.

### III.B. Precedential decisions—proper role

There are a few isolated areas where the PTAB has subject matter jurisdiction to issue precedential decisions with the binding weight one normally attributes to the word "precedential."

First, like any other tribunal's jurisdiction to determine its own jurisdiction, the PTAB is authorized to issue decisions explaining that jurisdiction, and give those decisions precedential weight.<sup>162</sup> For example, *Ex parte Lemoine*<sup>163</sup> was properly designated "precedential" because it interprets the PTAB's jurisdiction to hear *ex parte* appeals. Likewise, *SecureBuy, LLC v. CardinalCommerce Corp.*<sup>164</sup> is properly a precedential statement of the PTAB's jurisdiction to consider its own jurisdiction.

Second, the PTAB may use a "precedential" designation when the decision is a valid exercise of the agency's "housekeeping" power under 5 U.S.C. § 301, and the decision announces a rule that is binding on PTO personnel, but has no adverse effect against applicants.<sup>165</sup> For example, *Ex parte Bhide*<sup>166</sup>

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<sup>161</sup> *E.g.*, *Ex parte Campbell*, note 142 *supra*, [...fd2010008367-06-07-2012-2](https://www.uspto.gov/patents-application-process/appealing-patent-decisions/decisions-and-opinions/informative-opinions-0) at 6 n.6, 2012 WL 2090379 at \*1 ("Appellants have been accorded constructive notice of the precedential Nehls decision, which has been posted on the uspto.gov web site since 2008.") The PTAB's assertion is incorrect. No statute or regulation defines the PTAB's web site as "constructive notice," and at the time, the PTO's uspto.gov had no "indexing."

<sup>162</sup> See *Cruz v. Dep't of the Navy*, 934 F.2d 1240, 1243-44 (Fed. Cir. 2007) (tribunal has inherent authority to determine its own jurisdiction, even without a specific statutory grant).

<sup>163</sup> *Ex parte Lemoine*, 46 USPQ2d 1420 (BPAI Dec. 27, 1994).

<sup>164</sup> *SecureBuy, LLC v. Cardinal Commerce Corp.*, CBM2014-00035, paper no. 12 at 3, 111 USPQ2d 1739 (PTAB Apr. 25, 2014).

<sup>165</sup> See § II.E on 5 U.S.C. § 301 and "housekeeping rules."

sets burdens on examiners in supporting utility and enablement rejections. *Ex parte Eggert*<sup>167</sup> decides an issue of the “recapture rule” in reissues, and sets standards that protect the public.<sup>168</sup> *Ex parte Frye*,<sup>169</sup> discussed in § IV.C below, reconfirms that, on *ex parte* appeal, the examiner bears the initial burden to explain any rejection, support it by substantial evidence, and meet a “preponderance of evidence” burden. *Bhide, Eggert*, and this specific point of *Frye*, are “housekeeping rules” that bind the agency in favor of the public, and impose no burdens on applicants. These decisions are legitimate exercises of “precedential” designation.

Interestingly, a significant fraction of the Trademark Trial and Appeal Board’s precedential decisions fall into this category. These *trademark* decisions include rulings in favor of applicants, with reasoning that can be incorporated into guidance to channel the discretion of trademark examining attorneys. The difference between the TTAB and PTAB is truly striking: the four PTAB precedential decisions of the previous paragraph are the entire body of that genre in 30 years. In contrast, the TTAB publishes that number of analogous precedential decisions to limit trademark examiners’ discretion almost every year. Reasons for the difference between the PTAB and TTAB in designating discretion-channeling decisions as “precedential” is not apparent. More precedential decisions in this mold, incorporated into the MPEP, could reduce costs for the PTO and for the public.

Finally, some of the PTAB’s precedential decisions are fairly characterized as “interpretations” of ambiguity in the procedural regulations for PTAB proceedings. So long as there’s no genuine issue of whether the interpretation is the PTO’s “fair and considered judgment” on the matter (for example, because of *ex post* rationalization or agency self-interest), a “majority vote of APJs” and approval of the Director could well represent sufficient process and agency deliberation to support a claim to *Auer* deference for precedential interpretations of

ambiguities in PTAB procedural regulations (but not gap-fills or whole-cloth improvisations).<sup>170</sup>

Other than the classes set forth here, almost all PTAB decisions (including “precedential” decisions) can at most be “interpretative” rules, which implies all the limits discussed in §§ II.B.1 and III.C of this article. Because the PTO has no general substantive rulemaking authority, *Chevron* deference for issues of substantive patent law (outside the “islands” of § II.A, *supra*) is not available for most PTAB decisions. Thus, except for the classes in this § III.B, it is at best misleading to designate decisions as “precedential.”<sup>171</sup>

### III.C. Problematic precedential decisions

Most of the 38 opinions on the PTAB’s “precedential opinion” page<sup>172</sup> discuss issues of substantive law outside the “islands” (claim interpretation, § 101 subject matter,<sup>173</sup> § 103 obviousness,<sup>174</sup> § 112(b)<sup>175</sup> and (f)<sup>176</sup>), and decide adversely to the appellant. Others purport to create new rules with no antecedent in any regulation,<sup>177</sup> or

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<sup>170</sup> The need for process, and the ambiguity in “how much procedure is enough to earn deference,” is discussed in Boundy, *Part 1: Rulemaking Primer, supra* note 3 at 52-53. *E.g.*, *Christopher and Mead*, note 74 *supra*, 533 U.S. at 230-31.

<sup>171</sup> See cases cited in note 8. *Chevron* “step zero” originates in *United States v. Mead Corp.*, 533 U.S. 218, 226-227 (2001). See also the discussion of the Information Quality Act at note 181 and its accompanying text.

<sup>172</sup> <https://www.uspto.gov/patents-application-process/appealing-patent-decisions/decisions-and-opinions/precedential> (retrieved March 6, 2018). As of March 6, 2018, there were 38 decisions identified by the PTAB as precedential.

<sup>173</sup> *Ex parte Gutta*, 93 USPQ2d 1025 (BPAI Aug. 10, 2009) (precedential).

<sup>174</sup> *Ex parte Catan*, 83 USPQ2d 1569 (BPAI Jul. 3, 2007) (precedential) and *Ex Parte Jellá*, 90 USPQ 2d 1009 (BPAI Nov. 3, 2008) (precedential) (an obviousness issue under § 103).

<sup>175</sup> *Ex parte Miyazaki*, 89 USPQ2d 1207 (BPAI Nov. 19, 2008) (precedential).

<sup>176</sup> *Ex parte Catlin*, 90 USPQ2d 1603 (BPAI Feb 3, 2009) (precedential) (definiteness).

<sup>177</sup> *E.g.*, *Athena Automation Ltd. v. Husky Injection Molding Sys. Ltd.*, IPR2013-00290 paper 18, <https://www.uspto.gov/sites/default/files/documents/Ath>

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<sup>166</sup> *Ex parte Bhide*, 42 USPQ2d 1441 (BPAI Jan. 31, 1996).

<sup>167</sup> *Ex parte Eggert*, 67 USPQ2d 1716 (BPAI May 29, 2003).

<sup>168</sup> but see note 374

<sup>169</sup> *Frye, infra* note 216. See *infra* § IV.C.

create new paperwork burdens but were not accompanied by contemporaneous procedure under the Paperwork Reduction Act.<sup>178</sup> These decisions are outside the PTAB's subject matter rulemaking authority, and the PTAB neglected statutorily-required procedures to make them binding rules. While the PTAB is obligated to decide single cases presented to it, any implication that these "precedential" opinions have any future binding effect against the public is misleading.

Some precedential decisions reach issues of substantive law that are genuinely open under Federal Circuit law. These can be designated precedential subject to several conditions:

- They are at best "interpretative" rules, only tentative positions
- Parties are entitled to argue for alternative interpretations, and the PTAB must consider the question anew, without relying on its "precedential" opinion<sup>179</sup>
- On appeal to the Federal Circuit, the Solicitor must recognize on that interpretative positions outside an agency's rulemaking subject matter jurisdiction are entitled to at most the weaker *Skidmore* form of deference.<sup>180</sup>

With those provisos, even these substantive law decisions may be given some elevated designation. However, to avoid misleading the public (and the APJs), the Information Quality Act suggests that these opinions should be redesignated as "informative."<sup>181</sup>

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[ena%20Automation Ltd. v. Huskey Injection Molding Systems Ltd. IPR2013-00290 Paper 18.pdf](#) at 12-13, 2013 WL 8595976 at \*7 (PTAB Oct. 25, 2013) (redesignated as precedential Aug. 1, 2017) (purporting to precedentially bind on issues of assignor estoppel).

<sup>178</sup> *E.g.*, *Ex parte Borden*, discussed below in § IV.B, and *Ex parte Ghuman*, discussed below in § IV.D. The Paperwork Reduction Act is introduced in footnote 2 and Boundy, *Part 1: Rulemaking Primer*, *supra* note 3, at 52.

<sup>179</sup> See note 17 and accompanying text.

<sup>180</sup> See note 16.

<sup>181</sup> Pub. L. No. 106-554, § 515, 114 Stat. 2763 (2000) (codified at 44 U.S.C. §§ 3504 note, 3516 note); Office of Management and Budget, *Guidelines for Ensuring and Maximizing the Quality, Objectivity, Utility, and Integrity of Information Disseminated by Federal Agencies; Notice*, 67 Fed. Reg. 8451 (Feb. 22, 2002) (information to be disseminated by federal agencies is to have "utility," that is, "usefulness of the information to

### III.D. PTAB "informative" opinions

Agencies are permitted—even encouraged—to issue "informative" opinions to provide non-binding, advisory guidance to the public.<sup>182</sup> Under SOP2, a PTAB opinion may be designated "informative" by a single person, the Chief APJ (under Revision 9) or by the Precedential Opinions Panel (under Revision 10)<sup>183</sup>—a person or 3-member panel who does not have the rulemaking authority of the Director, and who does not control the rest of the agency's rulemaking machinery. Without that rulemaking procedure, informative opinions categorize as "interpretative" rules or "general statements of policy" under § 553(b)(A) and (d)(2) of the APA.<sup>184</sup> That categorization implies that PTAB informative opinions, while useful to the public, have only the confined effect of "interpretative" rules or "policy statements." Indeed, as discussed above, many problems could be cured if all but a handful of existing "precedential" opinions (especially those directed to issues of substantive law) were down-designated to "informative" (or "obsolete").

However, the PTAB's practical implementation departs from law. The APA and other statutes govern informative opinions and interpretative rules as follows:

- Informative opinions may not even be cited against the public (let alone relied on) until the

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its intended users, including the public" and "objectivity," that is, "presented in an accurate, clear, complete, and unbiased manner"); U.S. Patent and Trademark Office, *Information Quality Guidelines*, <https://www.uspto.gov/learning-and-resources/information-quality-guidelines> (same); 44 U.S.C. § 3506(c)(3)(D) (agency rules that request information from the public must be "written using plain, coherent, and unambiguous terminology"); *see* Boundy, *Part 1: Rulemaking Primer*, *supra* note 3 at 12-13.

<sup>182</sup> *Good Guidance Bulletin*, *infra* at note 396, 72 Fed. Reg. at 3432, Introduction ("Well-designed guidance documents serve many important or even critical functions... Agencies may provide helpful guidance to interpret existing law through an interpretive rule or to clarify how they tentatively will treat or enforce a governing legal norm...").

<sup>183</sup> SOP2 Rev. 9, *supra* note 154 at § IV(A); SOP2 Rev. 10, *supra* note 154 at § III(C).

<sup>184</sup> See § II.B.1 and note 16.

agency has followed the notice, publication, and indexing requirements of § 552.<sup>185</sup>

- Informative opinions may not demand submission of paperwork to the agency or penalize a party for noncompliance until the agency has obtained clearance under the Paperwork Reduction Act.<sup>186</sup>
- Parties are entitled argue for alternative interpretations of any underlying ambiguity.<sup>187</sup> The PTAB must respond to these arguments on their own merits and may not stand on an interpretative rule as the last word on the subject.<sup>188</sup> All revisions of SOP2 since 2008 have reminded APJs that informative opinions are not precedential, and/or may not be cited as binding authority.<sup>189</sup>
- On judicial review, most interpretative rules are entitled to, at most, weak *Skidmore* deference, not strong *Chevron* or *Auer* deference.<sup>190</sup> “General statements of policy” aren’t even

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<sup>185</sup> See discussion of § 552 at § II.B.3.

<sup>186</sup> 44 U.S.C. § 3512. The Paperwork Reduction Act is introduced in Boundy, *Part 1: Rulemaking Primer*, *supra* note 3.

<sup>187</sup> See note 17, *supra*.

<sup>188</sup> See note 17, *supra*.

<sup>189</sup> When the PTAB *does* rely on informative opinions, e.g., *Ex parte Mostafazadeh*, Application 10/016,750, Appeal 2009-004238, [https://efoia.uspto.gov/Foia/RetrievePdf?system=BPAI&flNm=f\\_d2009004238-12-14-2009-2](https://efoia.uspto.gov/Foia/RetrievePdf?system=BPAI&flNm=f_d2009004238-12-14-2009-2) at 9, 2009 WL 5486107 at \*4-5 (BPAI Dec. 14, 2009), the explanations are unsatisfying, even if the outcome in the specific case may be correct. Among other omissions, *Mostafazadeh* does not explain consistency with the notice requirements of Fifth Amendment due process or the APA, the rulemaking provisions of the APA, or the obligation of an agency to follow its own rules under the *Accardi* principle (see notes 116 and 118—recall that SOP2 is a “housekeeping rule” with asymmetrically-binding effect against only the PTAB, not against the public).

<sup>190</sup> *Fogo de Chao (Holdings), Inc. v. U.S. Dept. of Homeland Security*, 769 F.3d 1127, 1137 (D.C. Cir. 2014) (“the expressly non-precedential nature of the Appeals Office’s decision conclusively confirms that the Department was not exercising ... any authority it had to make rules carrying the force of law.”).

entitled to that.<sup>191</sup> “Informative” opinions lack the agency deliberation and consensus required to earn *Chevron* or *Auer* deference.<sup>192</sup>

There are several problems in the PTAB’s “informative opinion” practice:

- SOP2 to the contrary, the PTAB regularly cites “informative” opinions as if they were binding precedent, often to end-run statutory requirements, written regulations, and Presidential orders. For example, *Idle Free v. Bergstrom*<sup>193</sup> was cited as the sole legal authority for denying entry of an IPR/PGR amendment nearly 100 times before there was a “precedential” opinion on the same point, as discussed in § IV.H, *infra*. For several years, “informative” opinions were often cited by the PTAB in deciding § 101 subject matter issues.<sup>194</sup>
- The PTAB uses “informative opinions” to announce a departure from Federal Circuit precedent, without the effrontery of a precedential opinion. For example, from 1998 to 2007, a number of PTAB “informative” opinions challenged the Federal Circuit’s “machine or transformation” test under § 101.<sup>195</sup>
- The PTAB dismisses appellants’ arguments that cite non-precedential decisions.<sup>196</sup> The law is

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<sup>191</sup> See notes 20 and 21.

<sup>192</sup> See note 106

<sup>193</sup> *Idle Free Systems, Inc. v. Bergstrom, Inc.*, *infra* at note 305.

<sup>194</sup> For example, A search for the word “Langemyr” in the PTAB’s decisions yields over 20 hits.

<sup>195</sup> Examples include *Ex parte Bowman*, 61 USPQ2d 1669 (BPAI 2001), which silently ignored the two controlling Federal Circuit cases in effect at the time. Strikingly, *Bowman* was submitted to the USPQ for publication, even though nonprecedential. Thereafter, *Bowman* was often cited by examiners, even though it was not precedential.

<sup>196</sup> E.g., *Valeo No. Amer., Inc. v. Magna Electronics, Inc.*, IPR2014-01206 paper no , 2014 WL 7336080 at \*5 (Dec. 23, 2014) (in response to an argument based on the informative *Conopco/Unilever* decision, note 332, *supra*, dismissing the argument); *Ex parte Janney*, Application 10/607,472, Appeal 2006-1533, 2007 WL 780897 at \*3 n.3 (“We do not address the Appellant’s arguments regarding *Ex parte Breslow*, 192 USPQ 431 (Bd. App. 1975), *Ex parte Fredlund*, 2002 WL 31321750 (Bd. Pat. App. & Int. 2002) and *Ex parte Brassey*, 2003 WL

otherwise. Section 552 permits the public to cite non-precedential opinions *against the PTO*, and the examiner or PTAB must take the argument at face value and respond.<sup>197</sup> Agencies cannot casually ignore previous decisions.<sup>198</sup> An agency may change its mind, but when it does so, the agency has a duty to acknowledge that it is doing so, “explain its departure from prior norms,” and explain why the earlier result is distinguishable, incorrect, or is not being followed.<sup>199</sup> However, this right to cite nonprecedential opinions is asymmetric, as the PTO recognized in former times.<sup>200</sup>

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23013149 (Bd. Pat. App. & Int. 2003) (Br. 14-16) because they are not binding precedent upon this panel.”); *Ex parte Janetos*, Application 08/421,489, Appeal No. 98-2156, 1998 WL 1736168 at \*2 (“Unpublished Board opinions are not binding as precedent and citing such a decision as precedent is improper and inappropriate (see *Ex parte Vossen*, 155 USPQ 109, 110 (Bd. App. 1967)).”) In citing *Vossen*, the *Janetos* panel overlooked the important fact that *Vossen* recognized—the PTAB cannot cite unpublished decisions, but the appellant can. See note 200.

<sup>197</sup> See note 143.

<sup>198</sup> See note 143.

<sup>199</sup> *E.g.*, *State Farm*, *supra* note 106; *Atchison, Topeka and Santa Fe Rwy.* and *Ramaprakash*, both cited in note 143; *McCrary v. Office of Personnel Management*, 459 F.3d 1344, 1350 (Fed. Cir. 2006) (when an agency takes a position inconsistent with its longstanding practice, without explanation for the shift, action is “is not reasoned decision-making and is arbitrary”); *Good Guidance Bulletin*, *infra* at note 396, § II(1)(b) (“Agency employees should not depart from significant guidance documents without appropriate justification and supervisory concurrence.”).

<sup>200</sup> In a Board decision by Pat Federico (the coauthor, along with Giles Rich, of the 1952 Patent Act), in which an examiner had cited a nonprecedential decision, the Board observed that the prior unpublished decision could not be relied upon *as binding authority for an adjudication*; rather, the question had to be redecided anew. *In re Vossen*, 155 USPQ 109, 110 (POBA 1967) (Federico, EIC). A minority of the Board still understands this principle. *Ex parte Jalett*, Appeal 2001-0421, <http://des.uspto.gov/Foia/RetrievePdf?system=BPAI&flNm=fd010421> at 23, 2006 WL 2523666 at \*10 (BPAI Feb. 27, 2003) (unpublished) (Garris, dissenting) (“The majority expressly characterizes *Ex parte Erlich* (which

- Until April 1, 2018, informative opinions were not indexed, and thus could not be cited *at all* without running afoul of § 552.

### III.E. “Routine” and other non-precedential decisions *against the agency*

Parties may cite “routine” and other non-precedential PTAB decisions in a posture against the agency, and the PTAB must give some *bona fide* answer—a brush-aside that the decision is non-precedential and need not be followed, with no more, is arbitrary and capricious.<sup>201</sup>

## IV. Example precedential and informative opinions

### IV.A. The first “informative” opinion—*Ex parte Bilski*

*In re Bilski* was issued by the PTAB in 2006 as, apparently, the PTAB’s first informative opinion.<sup>202</sup> *Bilski* presents well-known “abstract idea” facts that reached the Supreme Court—a method of doing business with no computer or hardware anywhere in the claims or specification.<sup>203</sup>

At the time *Bilski* was decided at the PTAB, the PTO’s official position on § 101 was stated in the Manual of Patent Examining Procedure (MPEP) § 2106.<sup>204</sup> Under administrative law, agency guidance documents and official agency interpretations of applicable statutes are binding on agency employees, including the agency’s ALJs, even if not binding on the public, under the *Accardi* principle.<sup>205</sup>

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was authored by one of the majority panel members) as nonprecedential. By its very nature, a nonprecedential opinion does not and cannot provide legal support for this rejection.”).

<sup>201</sup> See notes 106, 143, and 199 and accompanying text.

<sup>202</sup> *Ex parte Bilski*, Application 08/833,892, Appeal No. 2002-2257, <http://www.uspto.gov/ip/boards/bpai/decisions/inform/fd022257.pdf> at 35, 2006 WL 4080055 at \*15 (BPAI Sept. 26, 2006) (informative, not precedential)

<sup>203</sup> *Bilski v. Kappos*, 561 U.S. 593, 95 USPQ2d 1001 (2010).

<sup>204</sup>

[https://www.uspto.gov/web/offices/pac/mpep/old/E8R3\\_2100.pdf](https://www.uspto.gov/web/offices/pac/mpep/old/E8R3_2100.pdf)

<sup>205</sup> *E.g.*, *Yale-New Haven Hospital v. Leavitt*, 470 F.3d 71, 80 (2nd Cir. 2006) (addressing an agency policy

In *Bilski*, the PTAB announced its disagreement with and refusal to follow the PTO's official interpretation of Federal Circuit precedent. That's striking enough—but then the *Bilski* panel, in its footnote 8, explains its mutiny against PTO interpretations it doesn't wish to follow:<sup>206</sup>

Guidelines are intended to instruct examiners on how to apply the law to the facts. The Board is not bound by such guidelines,<sup>8</sup> but applies the law directly to the facts.

<sup>8</sup> From the movie Pirates of the Caribbean (Disney 2003):

Elizabeth: You have to take me to shore! According to the Code of the Order of the Brethren.

Barbossa: First, your return to shore was not part of our negotiations nor our agreement, so I 'must' do nothin'. And secondly, you must be a pirate for the pirate's code to apply, and you're not. And thirdly, the code is more what you call guidelines than actual rules. Welcome aboard the Black Pearl, Miss Turner.<sup>207</sup>

The *Bilski* panel:

- doesn't cite any recognized source of law that justifies the Board's dismissal of the PTO's official interpretation in the MPEP and disregard of the *Accardi* principle.
- cites a fictional movie as its only authority
- adopts for itself the legal process of pirates.

#### IV.B. *Ex parte Borden* and new arguments in reply briefs

The 2004 rules for *ex parte* appeals allowed an appellant to raise a new argument in the Reply Brief: from 2004 to 2008, Appeal Rule 41.37(c)(1)(vii) read: "Any arguments or authorities not included in the brief or a reply brief filed pursuant to § 41.41 will be refused consideration by the Board, unless good cause is shown." In 2007-08, the PTO attempted to amend

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manual: "An interpretative rule binds an agency's employees, including its ALJs"); KENNETH C. DAVIS & RICHARD J. PIERCE, JR., ADMINISTRATIVE LAW § 6.3 (3d ed. 1996 & Supp.1997); see also notes 114 and 118.

<sup>206</sup> *Bilski*, *supra* note 202, [.../fd022257.pdf](#) at 35, 2006 WL 4080055 at \*15, \*15 n.8.

<sup>207</sup> See note 202.

the appeal rules: one proposal was to require that all arguments be in the opening brief, and that new arguments in a reply brief would be disregarded.<sup>208</sup> In December 2008, the Executive Office of the President barred the 2008 rules, and specifically instructed the Board to apply *only* the 2004 rules and no more.<sup>209</sup>

Only two weeks after this order from the President to the Board, in *Ex parte Borden*, the Board stated in an informative opinion that it would enforce the "no new arguments in a reply brief" provision of the forbidden 2008 appeal rules.<sup>210</sup> The Board's rationale was to misquote the text of the 2004 regulation by replacing the operative and permissive language of the regulation, "or a reply brief," with ellipses.<sup>211</sup>

Even though it's only "informative," *Borden* was cited dozens of times in its first few years. *Borden* is

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<sup>208</sup> Patent and Trademark Office, *Rules of Practice Before the Board of Patent Appeals and Interferences in Ex Parte Appeals; Final Rule*, RIN 0651-AC12, 73 Fed. Reg. 32937, 32975 (Jun. 10, 2008), proposed 37 C.F.R. § 41.37(o)(2) ("Arguments considered. Only those arguments which are presented in the argument section of the appeal brief and that address claims set out in the claim support and drawing analysis section in the appendix will be considered. Appellant waives all other arguments in the appeal.").

<sup>209</sup> Executive Office of the President, Office of Information and Regulatory Affairs, Notice of Action, <http://www.reginfo.gov/public/do/DownloadNOA?requestID=216727> (Dec. 22, 2009). Astute readers of this article will recognize that I had something to do with that order from OMB to the PTO. IP Updates blog, *USPTO Appeal Brief Rules Delayed Indefinitely*, <http://ip-updates.blogspot.com/2008/12> (Dec. 9, 2008) ("what is not generally known is that David Boundy is the hero. Against very, very long odds, he quarterbacked a group effort at the OMB that ended in the blockage of this very, very unfortunate rulemaking."); Patently-O blog, *New Patent Appeals Rules: Delayed by Whitehouse OMB*, <https://patentlyo.com/patent/2008/12/new-patent-appel.html> (Dec. 9, 2008).

<sup>210</sup> *Ex parte Borden*, 93 USPQ2d 1473, 1474-75 (BPAI Jan 7, 2010) (informative).

<sup>211</sup> *Borden*, 93 USPQ2d at 1474 ("Giving cognizance to belated arguments in a reply would vitiate the force of the requirement in Board Rule 37(c)(1)(vii) that '[a]ny arguments or authorities not included in the brief . . . will be refused consideration by the Board,' ellipses in *Borden*, replacing the words "or a reply brief" in original rule 37(c)(1)(vii))

still regularly cited today as sole authority for denying consideration to appellants' arguments.<sup>212</sup>

The PTAB amended its regulations in 2011 to adopt the "opening brief only" rule.<sup>213</sup> After 2011, citing *Borden* is harmless error—but it's error nonetheless, and the remarkable reasoning of *Borden* casts its shadow on the entire field of "informative" opinions.

*Borden* moved from "precedential" to "archived" in 2018, after drafts of this article began to circulate.<sup>214</sup> The PTAB continues to cite it anyway.<sup>215</sup>

#### IV.C. *Ex parte Frye*, *Ex parte Quist*, the burden of proof, and waiver

*Ex parte Frye*<sup>216</sup> was decided by an expanded panel with Director David Kappos and Deputy Director Barner on the panel, shortly after Director Kappos was confirmed. *Frye* stands for two propositions: (a) on *ex parte* appeal, the burden of proof lies with the examiner, and (b) arguments not raised need not be considered by the PTAB *sua sponte*,

##### IV.C.1. The burden of proof

*Frye* begins by setting out the burden of proof on *ex parte* appeal. *Frye* restates basic principles from the Patent Act, that the examiner bears the initial burden to come forward with evidence that meets a "preponderance of evidence" burden,<sup>217</sup> and from the

Administrative Procedure Act, that the examiner has a burden to explain that evidence:

"The Examiner has the initial burden to set forth the basis for any rejection so as to put the patent applicant on notice of the reasons why the applicant is not entitled to a patent on the claim scope that he seeks—the so-called "*prima facie* case." *In re Oetiker*, 977 F.2d 1443, 1445, 24 USPQ2d 1443, 1444 (Fed. Cir. 1992); *In re Piasecki*, 745 F.2d 1468, 1472, 223 USPQ 785, 788 (Fed. Cir. 1984) (the initial burden of proof is on the USPTO "to produce the factual basis for its rejection of an application under sections 102 and 103").<sup>218</sup>

Because this language states only obligations on the agency, it's a legitimately-precedential exercise of Director Kappos' "housekeeping" power. Shortly after, in *Ex parte Quist*, the Board reiterated that "[t]he examiner has an initial burden to set forth the basis for a rejection."<sup>219</sup> Likewise, this is a proper "housekeeping" rule, and properly precedential.

*Frye* itself is entirely unremarkable (*Frye*'s restatement of the burden of proof was only necessary because the 2008 proposed appeal regulations had proposed that it was the *appellant's* burden to establish examiner error, rather than the *examiner's* burden to establish unpatentability, attempting to overrule statute by regulation.<sup>220</sup>). *Frye* is merely a restatement of one of the more often-repeated procedural holdings of the Federal Circuit.<sup>221</sup> And it's

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<sup>212</sup> E.g., *Ex parte Bonucci*, Application 13/509,593, Appeal 2017-010135, <https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&fINm=f d2017010135-11-27-2017-1> at 6 n.6, 2016 WL 6311829 at \_\_\_ n.6 (Nov. 27, 2017).

<sup>213</sup> Patent and Trademark Office, *Rules of Practice Before the Board of Patent Appeals and Interferences in Ex Parte Appeals, Final Rule*, 76 Fed. Reg. 72270, 72298 (Nov. 22, 2011) (amending 37 C.F.R. § 41.41(a)(c)).

<sup>214</sup> [.../precedential-informative-decisions](https://www.uspto.gov/foia/precedential-informative-decisions), note 172, *supra*.

<sup>215</sup> *Ex parte Cho*, 13/744,456, Appeal No. 2017-009973, <https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&fINm=f d2017009973-10-26-2018-1> at 3, 2018 WL \_\_\_ at \* \_\_\_ (PTAB Oct. 30, 2018).

<sup>216</sup> *Ex parte Frye*, 94 USPQ2d 1072, 1075 (BPAI 2010) (*en banc*, precedential)

<sup>217</sup> *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1427, 7 USPQ2d 1152, 1156 (Fed. Cir. 1988) ("a preponderance

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of the evidence must show nonpatentability before the PTO may reject the claims of a patent application").

<sup>218</sup> *Frye*, *supra* note 216, 94 USPQ2d at 1075.

<sup>219</sup> *Ex parte Quist*, 95 USPQ2d 1140, 1141–42 (BPAI Jun. 2, 2010) (precedential).

<sup>220</sup> Patent and Trademark Office, *Rules of Practice Before the Board of Patent Appeals and , Interferences in Ex Parte Appeals; Final Rule*, 73 Fed. Reg. 32938, 32974 (Jun. 10, 2008) (proposed § 41.37(o) required appellant to establish "why the examiner erred"), *indefinitely delayed*, 73 Fed. Reg. 74972 (Dec. 10, 2008), *withdrawn* 76 Fed. Reg. 72270 (Nov. 22, 2011). See also note 209.

<sup>221</sup> E.g., 35 U.S.C. § 102 (applicant is "entitled" to a patent unless PTO shows otherwise); *In re Swanson*, 540 F.3d 1368, 1377, 88 USPQ2d 1196, 1203 (Fed. Cir. 2008) ("In PTO examinations ... the standard of proof [is] a preponderance of evidence"); *In re Kahn*, 441 F.3d 977, 989, 78 USPQ2d 1329, 1338 (Fed. Cir. 2006) ("the Board need only establish motivation to combine by a preponderance of the evidence"); *In re Glaug*, 283 F.3d

an important statement: an erroneous burden of proof sets up a decision for *per se* reversal.<sup>222</sup>

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1335, 1338, 62 USPQ2d 1151, 1153 (Fed. Cir. 2002) (“patentability is determined by a preponderance of all the evidence”); *In re Swanson*, 540 F.3d 1368, 1377, 88 USPQ2d 1196, 1203 (Fed. Cir. 2008) (“In PTO examinations ... the standard of proof [is] a preponderance of evidence”); *In re Kahn*, 441 F.3d 977, 989, 78 USPQ2d 1329, 1338 (Fed. Cir. 2006) (“the Board need only establish motivation to combine by a preponderance of the evidence”); *In re Glaug*, 283 F.3d 1335, 1338, 62 USPQ2d 1151, 1153 (Fed. Cir. 2002) (“patentability is determined by a preponderance of all the evidence”); *In re Oetiker*, 977 F.2d 1443, 1445, 24 USPQ2d 1443, 1444 (Fed. Cir. 1992) (“the examiner bears the initial burden, on review of the prior art or on any other ground, of presenting a prima facie case of unpatentability. ... After evidence or argument is submitted by the applicant in response, patentability is determined on the totality of the record, by a preponderance of evidence with due consideration to persuasiveness of argument.”); *Oetiker*, 977 F.2d at 1449, 24 USPQ2d at 1447 (Plager, J., concurring) (“[W]hen obviousness is at issue, the examiner has the burden of persuasion and therefore the initial burden of production. Satisfying the burden of production, and thus initially the burden of persuasion, constitutes the so-called *prima facie* showing. Once that burden is met, the applicant has the burden of production to demonstrate that the examiner’s preliminary determination is not correct. The examiner, and if later involved, the Board, retain the ultimate burden of persuasion on the issue.”); *Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1427, 7 USPQ2d 1152, 1156 (Fed. Cir. 1988) (“a preponderance of the evidence must show nonpatentability before the PTO may reject the claims of a patent application”).

See also *Director, Office of Workers Compensation Programs, Dep’t of Labor v. Greenwich Colliers*, 512 U.S. 267, 275–81 (1994) (unless superseded by statute, 5 U.S.C. § 556(d) prohibits an agency from shifting the burden of production or burden of persuasion for issues the agency is required to prove in order to grant or deny an order).

<sup>222</sup> *Cooper Industries Inc. v. Leatherman Tool Group, Inc.*, 532 U.S. 424, 443, 58 USPQ2d 1641, 1649 (2001) (vacating a decision of the Ninth Circuit based solely on the Ninth Circuit’s application of an incorrect standard of review); *Dickinson v. Zurko*, 527 U.S. 150, 165, 50 USPQ2d 1930, 1936–37 (1999); *Price v. Symsek*, 988 F.2d 1187, 1194, 1196, 26 USPQ2d 1031, 1036, 1038 (Fed. Cir. 1993) (remanding because the Board used the wrong standard of proof); see also *Allentown Mack Sales*

The first remarkable thing about *Frye* is the great difficulty that subsequent Board panels have had in following it.<sup>223</sup> A Westlaw search for phrases placing the burden on the appellant, for example, “Appellant has not convinced us that . . .” or “Appellant has not persuasively rebutted the examiner’s findings . . .” or “We are not persuaded that the examiner erred” or “We are persuaded of harmful error” or otherwise resting a burden of persuasion onto an appellant, yields hundreds of hits.<sup>224</sup> Contrary-wise, in the many

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*& Serv., Inc. v. NLRB*, 522 U.S. 359, 376–77 (1998) (“Because reasoned decisionmaking demands it, and because the systemic consequences of any other approach are unacceptable, the [agency] must be required to apply in fact the clearly understood legal standards that it enunciates in principle, such as good-faith reasonable doubt and preponderance of the evidence. ... Even the most consistent and hence predictable [agency] departure from proper application of those standards will not alter the legal rule by which the agency’s fact-finding is to be judged.”)

<sup>223</sup> For example, the *Dominguez* panel (note 144) demonstrates confusion on the role of examiners. In an *ex parte* appeal, an examiner stands in nearly the same shoes as petitioner’s attorney in an IPR/PGR proceeding. Both are simply advocates, neither is a subordinate tribunal with any claim to deference. Both are on the burden-bearing end of a “preponderance of evidence” lift. Both have an obligation to explain their positions (the IPR/PGR attorney’s obligation to explain arises under the PTAB’s trial regulations, the examiner’s under the Administrative Procedure Act). Both appear before a *de novo* fact-finder of first instance. Both submit evidence and arguments or explanations of evidence, neither submits “findings” to be reviewed or affirmed. Both bear the burden of persuasion—an *ex parte* appellant does not.

<sup>224</sup> E.g., *Ex parte Yankovich*, App. Ser. No. 13/051,476, Appeal No. 2016-002057, <https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&flNm=f d2016002057-08-18-2017-1> at 5-6, 2017 WL 3638374 at \*3 (Aug. 18, 2017) (brushing aside “substantial evidence” requirements of the Administrative Procedure Act, the MPEP, and the Board’s own precedent, and instead relying on the Board’s naïveté on the difference between “issues of law” vs. underlying “issues of fact,” to affirm the examiner on an issue of fact for which the examiner proffered no evidence); *Ex parte Srivastava*, App. Ser. No. 13/428,539, Appeal No. 2015-003159, <https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&flNm=f>

dozens of PTAB decisions reviewed for this article, phrases that correctly place the burden, like “Even interpreted in light of the burden of proof favoring the appellant, the evidence has persuasively shown, and the examiner has persuasively explained . . . ” are a rarity. In one recurring pattern, a number of PTAB panels have brushed aside *Frye* and *Quist*, as well as the APA’s requirement for “substantial evidence,” on no basis more substantial than the panel members’ lack of personal and individual awareness of fundamental principles of agency adjudication. For example, in *Ex parte Reardon*, the PTAB panel said:

Appellants charge that the Examiner failed to establish a prima facie rejection under 35 U.S.C. § 101, because the Examiner fails to provide evidence that [one claim element] is an abstract idea . . . . But we are aware of no controlling authority that requires the Office to provide factual evidence to support a finding that a claim is directed to an abstract idea.<sup>225</sup>

The following paragraph of *Reardon* then demonstrates a confused understanding of burdens of proof, burdens of production, standards of review, the APA obligation to explain, and substantive law.<sup>226</sup>

The PTAB is not an Article III Court.<sup>227</sup> The law, of which *Frye* is an accurate restatement, requires the PTAB to apply “preponderance of evidence” as a *de novo* standard of *proof*, as a fact-finder of first instance.<sup>228</sup> In contrast, the Federal Circuit applies “substantial evidence” as a standard of *review*—the language in which the Federal Circuit explains itself vis-à-vis the PTAB is not appropriate for the PTAB to explain the burden of *proof* vis-à-vis examiners. I know of no authority (outside the PTO) that creates any tension with *Frye* or the Federal Circuit authority noted above, or that could arguably support the approach taken in the majority of PTAB *ex parte*

decisions. The reasons for the PTAB’s consistent confusion are not known.

#### IV.C.2. *Frye* and waiver

In practice, *Frye* is much more often cited by the PTAB for a different proposition:

Filing a Board appeal does not, unto itself, entitle an appellant to *de novo* review of all aspects of a rejection. If an appellant fails to present arguments on a particular issue—or more broadly, on a particular rejection—the Board will not, as a general matter, unilaterally review those uncontested aspects of the rejection.<sup>229</sup>

As a pedantic administrative law teaching point, *Frye* shares the same defect as *Borden*: the Board lacks authority to promulgate a rule adverse to appellants without going through the rulemaking procedures of the APA and Paperwork Reduction Act.<sup>230</sup> Thus, this statement of *Frye* may not properly be relied on by the Board as “precedent.” On the other hand, as a practical matter, taken on its own terms, this point of *Frye* is an innocuous statement of reality—the Board can’t be expected to be omniscient, or to have oracular insight into every possible issue that wasn’t raised. And reliance on *Frye* is harmless error, since the PTAB *did* amend its rules in 2011.<sup>231</sup>

The second remarkable thing about *Frye* is how the PTAB converts a normally-discretionary principle like waiver<sup>232</sup> into a hard-edged rule. For example, the Federal Circuit held in *Berkheimer v. HP, Inc.* that in evaluating a claim for a § 101 “abstract idea,” the “[t]he question of whether a claim element or combination of elements is well-understood, routine and conventional to a skilled artisan in the relevant

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[d2015003159-06-26-2017-1](#) at 4-7, 2017 WL 2928810 at \*2-3 (Jun. 26, 2017) (three references to wrong burden of proof).

<sup>225</sup> *Ex parte Reardon*, App. Ser. No. 13/681,729, Appeal 2016-003358, [https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&fINm=f\\_d2016003358-09-29-2017-1](https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&fINm=f_d2016003358-09-29-2017-1) at 4, 2017 WL 4387089 at \*2 (Sep. 29, 2017).

<sup>226</sup> *Reardon*, ...fd2016003358-09-29-2017-1 at 4-5, 2017 WL 4387089 at \*2

<sup>227</sup> See note 6, *supra*.

<sup>228</sup> See notes 217 and 218 and accompanying text.

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<sup>229</sup> *Frye*, *supra* note 216, 94 USPQ2d at 1075.

<sup>230</sup> See §§ II and III and note 28

<sup>231</sup> See note 213.

<sup>232</sup> For example, Article III courts will not apply waiver in situations such as where “(1) the issue involves a pure question of law and refusal to consider it would result in a miscarriage of justice; (2) the proper resolution is beyond any doubt; (3) the appellant had no opportunity to raise the objection below; (4) the issue presents significant questions of general impact or of great public concern; or (5) the interest of substantial justice is at stake.” *Automated Merchandising Sys., Inc. v. Lee*, 782 F.3d 1376, 1379, 114 USPQ2d 1457, 1480 (Fed. Cir. 2015) (quotations omitted).

field is a question of fact.”<sup>233</sup> As this article is going to press, five months after *Berkheimer*, and more than two months after it became official PTO policy to follow *Berkheimer*,<sup>234</sup> the PTAB continues to apply the pre-*Berkheimer* rule and the PTAB will affirm § 101 rejections for which there is no substantial evidence support.<sup>235</sup> Perhaps the PTAB, in relying on the *Frye* waiver rule, obligates appellants to file a paper bringing *Berkheimer* to the attention of the specific PTAB panel, before the PTAB will follow recent Federal Circuit authority?

Further, one questions the Board’s asymmetric practice of raising new grounds of rejection that the examiner did not raise,<sup>236</sup> while simultaneously refusing to consider arguments that the appellant did not raise even though they seem apparent to the panel. Is this asymmetry consistent with the Board’s

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<sup>233</sup> *Berkheimer v. HP, Inc.*, 881 F.3d 1360, 1368 (Fed. Cir. 2018) (“[t]he question of whether a claim element or combination of elements is well-understood, routine and conventional to a skilled artisan in the relevant field is a question of fact.”).

<sup>234</sup> Robert W. Bahr, *Memorandum to Patent Examining Corps, Changes in Examination Procedure Pertaining to Subject Matter Eligibility, Recent Subject Matter Eligibility Decision (Berkheimer v. HP, Inc.)*, <https://www.uspto.gov/sites/default/files/documents/memo-berkheimer-20180419.pdf> (Apr. 19, 2018). Agency interpretative guidance, such as this memorandum, is binding on the PTAB. See notes 205 and 114 and accompanying text.

<sup>235</sup> *E.g.*, *Ex parte Bhasin*, App. Ser. No. 13/931,471, Appeal 2016-003353, <https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&fNm=fid2016003353-06-27-2018-1> at 7, 2018 WL 3425404 at \*4 (PTAB Jun. 29, 2018) (four months after *Berkheimer*, stating that there is no requirement “that Examiners must provide evidentiary support in every case before a conclusion can be made that a claim is directed to an abstract idea. There is no such requirement.”).

<sup>236</sup> *E.g.*, *Ex parte DiStefano*, App. Ser. No. 10/868,312, Appeal No. 2011-001447, <https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&fNm=fid2011001447-05-28-2013-1> at 7, 2013 WL 5199779 at \*4 (May 30, 2013) (raising an entirely new issue, “nonfunctional descriptive matter,” that appears nowhere in the examiner’s papers), *aff’d on rehearing*, 2013 WL 4456034 (meanwhile refusing to designate the new reasoning as a new ground), *rev’d* 808 F.3d 845 (Fed. Cir. 2013).

obligation, derivative of its role under the Director, 35 U.S.C. § 3(a)(2)(A), to “perform [its] duties in a fair, impartial, and equitable manner?” Article III appellate courts are willing to reconstruct a case without regard to a party’s briefs when the just outcome is apparent;<sup>237</sup> it’s difficult to see a legal or equitable principle that underlies the PTAB’s approach to waiver.

#### IV.D. *Ex parte Ghuman* and rejected-but-unappealed claims

In *Ex parte Ghuman*, acting by pure common law with no regulatory grounding, the PTAB granted itself the authority to cancel claims out of an application, if rejections of those claims were not appealed.<sup>238</sup> *Ghuman* is a home run—it touches at least four bases of unlawfulness:

- *Ghuman* purports to create a substantive rule.
- *Ghuman* has no statutory or regulatory support.
- *Ghuman* directly clashed with guidance<sup>239</sup> that bound the PTO and its APJs, that allowed unappealed claims to remain pending—for example, an appellant could appeal dependent claims but not independent claims, or rejected claims could be left pending to be amended to track whatever claims emerged from the appeal.
- *Ghuman* calls for paperwork from the applicant, but there was no simultaneous request for clearance under the Paperwork Reduction Act.<sup>240</sup>

Eighteen months later, the PTO proposed to adopt the *Ghuman* rule through notice and comment.<sup>241</sup> In response to comment letters pointing out these legal

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<sup>237</sup> *E.g.*, *Aqua Products*, *supra* note 5, and the explanation in Boundy & Freistein, *supra* note 4.

<sup>238</sup> *Ex parte Ghuman*, 88 USPQ2d 1478 (BPAI May 1, 2008) (precedential).

<sup>239</sup> MPEP § 1205.02 (Aug 2005) (for unappealed claims, PTAB would “summarily sustain” the rejection).

<sup>240</sup>

<https://www.reginfo.gov/public/do/PRAOMBHistory?o=mbControlNumber=0651-0063> shows no filing for Paperwork clearance around May 2008, let alone grant.

<sup>241</sup> Procedure for Treating Rejected Claims That Are Not Being Appealed, Request for Comments, 74 Fed. Reg. 66097 (Dec. 14, 2009)

defects (including one from this author<sup>242</sup>), the PTO decided *not* to adopt the *Ghuman* rule as a regulation.

Yet, ten years later, as of April 2018, *Ghuman* was still included on the PTAB's list of "precedential" decisions, still without regulatory support, and was still cited by the Board a few times a year.<sup>243</sup> After drafts of this article began to circulate, *Ghuman* moved to "archived" status.<sup>244</sup>

#### IV.E. *Ex parte Tanaka* and reissue "error"

In *Ex parte Tanaka*, the PTAB issued a precedential decision, by a panel expanded *sua sponte*, holding that adding narrower dependent claims, with no change to existing independent claims, was not sufficient "error" to support reissue.<sup>245</sup> The Federal Circuit disagreed and overruled *Tanaka* on the merits,<sup>246</sup> though without reminding the PTAB that it had overstepped the limits of its substantive rulemaking authority.

#### IV.F. The "nonfunctional descriptive material" cases—*Nehls* and *Curry*

Under the Federal Circuit's common law "printed matter" rule, claim language directed to printed matter may be denied patentable weight in a § 102 or § 103 rejection. The typical "printed matter" case involves a new use of old apparatus, claimed as the old apparatus with instructions for the new use<sup>247</sup> (the rationale for this line of cases relates to unwarranted term

extension<sup>248</sup>). Courts deny patentable weight to the printed matter claim language.<sup>249</sup> On the other hand, if printed matter is "functionally related" to the substrate, then the printed matter claim language may be given patentable weight.<sup>250</sup> The famous example of "functionally related" printed matter is a set of measuring cups: one cup has the measurements printed at double their true values, one triple, one half, one a third, etc. to make it easy to measure out ingredients for double recipes, half recipes, and the like.<sup>251</sup> In every precedential case since the 1970s in which the court has applied any "printed matter" exception, the printed matter was a set of instructions printed on paper, or information with no recited substrate.<sup>252</sup> Conversely, in every Federal Circuit case involving data in the memory of a computer, the Federal Circuit has rejected applicability of the "printed matter" rule—computer data is not "printed matter."<sup>253</sup>

The Federal Circuit's case law sets out a number of principles:

- "Printed matter" is evaluated in a two-step process.<sup>254</sup> The first step evaluates whether the limitation is "printed matter."<sup>255</sup> Only after that does the inquiry move on to evaluate "functional relationship to the substrate."<sup>256</sup>
- The "printed matter case law tells us that "The first step of the printed matter analysis is the "determination that the limitation in question is in fact directed toward printed matter."<sup>257</sup> There

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<sup>242</sup> David Boundy, Comments on "unappealed claims" Federal Register notice, <https://www.uspto.gov/sites/default/files/patents/law/comments/boundy12jan2010.pdf> (Jan. 12, 2010).

<sup>243</sup> <https://efoia.uspto.gov/Foia/PTABReadingRoom.jsp> with search keyword "Ghuman."

<sup>244</sup> <https://precedential-informative-decisions>, note 172, *supra*.

<sup>245</sup> *Ex parte Tanaka*, 93 USPQ2d 1291 (BPAI 2009)

<sup>246</sup> *In re Tanaka*, 640 F.3d 1246 (Fed. Cir. 2011).

<sup>247</sup> *AstraZeneca L.P. v. Apotex, Inc.*, 633 F.3d 1042, 1064-65, 97 USPQ2d 1029, 1046 (Fed. Cir. 2010) (a printed label indicating dosing instructions is subject to the exception); *Ngai, supra* note 248, 367 F.3d at 1339, 70 USPQ2d at 1864 (printed instructions added to a known kit are subject to the exception); *cf. King Pharms., Inc. v. Eon Labs, Inc.*, 616 F.3d 1267, 1279, 95 USPQ2d 1833, 1842 (Fed. Cir. 2010) (applying analogous reasoning to "informing" a human, with no recited substrate).

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<sup>248</sup> *In re Ngai*, 367 F.3d 1336, 1339, 70 USPQ2d 1862, 1864 (Fed. Cir. 2004).

<sup>249</sup> See note 247

<sup>250</sup> See note 247; *In re Miller*, 418 F.2d 1392, 1396 (CCPA 1969)..

<sup>251</sup> *In re Miller*, 418 F.2d 1392, 1396 (CCPA 1969).

<sup>252</sup> See note 247

<sup>253</sup> *E.g., In re DiStefano*, 808 F.3d 845, 848, 117 USPQ2d 1265, 1267-68 (Fed. Cir. 2015); *In re Lowry*, 32 F.3d 1579, 1583-84, 32 USPQ2d 1032, 1034-35 (Fed. Cir. 1994).

<sup>254</sup> see note 256.

<sup>255</sup> see note 256.

<sup>256</sup> *In re DiStefano*, 808 F.3d 845, 848, 117 USPQ2d 1265, 1267-68 (Fed. Cir. 2015); *see also In re Lowry*, 32 F.3d 1579, 1583-84, 32 USPQ2d 1032, 1034-35 (Fed. Cir. 1994) (applying these two steps sequentially).

<sup>257</sup> *DiStefano*, 808 F.3d at 848, 117 USPQ2d at 1267.

is no analogy between data stored in the memory of a computer and “printed matter.”<sup>258</sup>

- Any “printed matter” exception applies only to “printed lines or characters, useful and intelligible *only* to the human mind.”<sup>259</sup> Matter in the memory of a computer, or printed markings on a disk to be read by an optical reader machine, are not “printed matter.”<sup>260</sup> The printed matter exception is limited to “indicia whose primary purpose is the conveying of intelligence to a reader.”<sup>261</sup>
- The exception has “no factual relevance” when “the invention as defined by the claims *requires* that the information be processed not by the mind but by a machine, the computer.”<sup>262</sup>
- As “a necessary condition for falling into the category of printed matter, a limitation is printed matter only if it claims the content of information.”<sup>263</sup> Language describing “where the information came from, its ‘origin,’ is not part of the informational content at all.”<sup>264</sup>
- It was “erroneous” for the Board to extend a printed matter rejection to a new field which involves information stored in a memory.<sup>265</sup>
- Only after satisfying all these tests under step one for “printed matter” does the inquiry proceed to step two, to ask whether the printed matter is functionally or structurally related to the associated physical substrate.<sup>266</sup>
- The phrase “descriptive material” (in the relevant context) is absent from the corpus of precedential Federal Circuit decisions, except when the

<sup>258</sup> *Lowry*, 32 F.3d at 1583, 32 USPQ2d at 1035.

<sup>259</sup> see note 261.

<sup>260</sup> see note 261.

<sup>261</sup> *In re Jones*, 373 F.2d 1007, 1012, 153 USPQ 77, 81 (CCPA 1967); see also *Lowry*, 32 F.3d at 1583, 32 USPQ2d at 1034; *In re Bernhart*, 417 F.2d 1395, 1399, 163 USPQ 611, 615 (CCPA 1969).

<sup>262</sup> *Lowry*, 32 F.3d at 1583, 32 USPQ2d at 1034 (emphasis in *Lowry*).

<sup>263</sup> *DiStefano*, 808 F.3d at 848, 117 USPQ2d at 1267.

<sup>264</sup> *DiStefano*, 808 F.3d at 851, 117 USPQ2d at 1269.

<sup>265</sup> *Lowry*, 32 F.3d at 1583, 32 USPQ2d at 1034.

<sup>266</sup> *DiStefano*, 808 F.3d at 851, 117 USPQ2d at 1268.

Federal Circuit paraphrases the Board’s reasoning—and then disapproves it.<sup>267</sup>

Lowry’s invention involved data structures in a database—an arrangement of pointers to allow various data items to be correlated to each other.<sup>268</sup> The reasoning in *Lowry*, rejecting the PTO’s assertion of “non-functional descriptive material,” is not subtle or equivocal. *Lowry* discusses, at length, multiple reasons that computer data structures are not “printed matter,” and leaves no room to doubt that data in a computer memory arranged in form or having values set for functional reasons are “functional.”<sup>269</sup> *Lowry* quotes an earlier case to remind the PTO that the court is “notably weary” in reminding the PTO of these principles,<sup>270</sup> and repeats an earlier lock-down holding, “[t]he printed matter cases have no factual relevance where ‘the invention as defined by the claims requires that the information be processed not by the mind but by a machine, the computer.’”<sup>271</sup>

The PTAB responded with a series of anomalies.

*Ex parte Curry* is an “informative” opinion that involves data in a database.<sup>272</sup> *Curry* conflicts with Federal Circuit precedent: the Federal Circuit’s *Lowry* states that the “printed matter” rule has no relevance to data stored in the memory of a machine for processing by the machine, but *Curry* holds that data

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<sup>267</sup> E.g., *In re Wirth*, 563 Fed. Appx. 777, 778-79 (Fed. Cir. Jun. 12, 2014) (unpublished) (appealing *Ex parte Wirth*, Application 10/277,162, Appeal 2011-006989, <https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&fNm=fid2011006989-04-10-2013-1> (PTAB Apr. 12, 2012), in which the PTAB applied its “non-functional descriptive material” rule to computer data (a web URL), “[We] disagree with the Board’s application of the printed matter doctrine,” with the clear implication that the Federal Circuit disapproves the use of the phrase “descriptive matter” and is quite insistent that the rule is limited to “printed matter”).

<sup>268</sup> *Lowry*, 32 F.3d at 1583-84, 32 USPQ2d at 1034-35.

<sup>269</sup> see note 268.

<sup>270</sup> *Lowry*, 32 F.3d at 1583, 32 USPQ2d at 1034, quoting *In re Gulack*, 703 F.2d 1381, 1385 n.8, 217 USPQ 401, 403 n.8 (Fed. Cir. 1983).

<sup>271</sup> *Lowry*, 32 F.3d at 1583, 32 USPQ2d at 1034, quoting *Bernhart*, 417 F.2d at 1399, 163 USPQ at 615.

<sup>272</sup> *Ex parte Curry*, 84 USPQ2d 1272 (BPAI Jun. 30, 2005) (informative).

“in a database” is “nonfunctional descriptive material” that may be denied weight.<sup>273</sup> *Curry* cites *Ngai* and *Gulack*, two leading “printed matter” cases—misquoting them to change the words “printed matter” to “descriptive material.”<sup>274</sup> *Curry* omits any mention of *Lowry*, even though *Lowry* was argued in the *Appeal Brief, Examiner’s Answer, and Reply Brief* (though, to be fair, the appeal brief argued *Lowry* for a different issue—nonetheless, the Board’s omission of any discussion of *Lowry* remains striking).<sup>275</sup> *Curry* then improvises an alternative “descriptive material” test that has no antecedent in any known authority.<sup>276</sup> Writing *Lowry* out of the law, creating a new standard, and purporting to offer a prospective rule on an issue of substantive law, are all beyond the PTAB’s authority.

In 2008, the Board extended its “nonfunctional descriptive material” line in a precedential decision, *Ex parte Nehls*.<sup>277</sup> The Board found claims to a computer with specific data in its memory to be obvious.<sup>278</sup> As in *Curry*, the Board did not compare the claims to prior art. Instead, the Board denied weight to the relevant claim language, citing *Curry* (as if it were precedential, in clear violation of the noncitation rule of § 552(a) and the PTAB’s own SOP2 (see § II.B.3)).<sup>279</sup> *Lowry* is addressed in a single footnote:

That statement, however, must be regarded as dictum, because the court went on to conclude that the data structures at issue in *Lowry* were not analogous to printed matter. Thus, the quoted statement was not essential to the *Lowry* holding. The *Lowry* court did not consider whether, and under what circumstances, computer-readable information that is analogous to printed matter can distinguish a claimed invention from the prior art.<sup>280</sup>

To be sure, *Lowry* gives multiple alternative grounds for its decision—several under step one (data in a computer memory are not “printed matter”) and another under step two (*Lowry*’s particular data, a physical arrangement of the data, are “functional”).<sup>281</sup> But the *Nehls* expanded panel (seven APJs, including the Chief APJ) had faulty memories of first-year Civil Procedure: “essential to the holding” and “alternative grounds” are tests for issue preclusion, not for dictum.<sup>282</sup> Dismissing one of several alternative grounds as “dictum” is simply error.

Further, dismissing reasoning as “dictum” is a power usually reserved for a tribunal of the same level. Subordinate tribunals do not ordinarily dismiss their reviewing tribunals’ alternative grounds as “dictum,” especially (1) when the “dictum” quotes two prior decisions, (2) when the relevant language is the central analysis (not an off-hand remark), and (3) when the reviewing tribunal notes that it is “notably weary” in issuing the same instructions that the subordinate tribunal now dismisses as “dictum.”<sup>283</sup>

The *Nehls* Board does not explain (1) what alternative “analogy” it believes to be more apt than *Lowry*’s “machine” versus “human mind” rationale for step one, (2) where the Board panel derived authority to replace *Lowry*’s analysis with its own, or (3) why the Federal Circuit, already “notably weary,” should explain the principles of “printed matter” once again.

Remarkably, *Nehls* could easily have been decided on classical obviousness grounds, for example, obviousness of a claimed species within a disclosed genus.<sup>284</sup> Apparently, *Nehls* had taken routine, off-the-shelf set of database programs for analyzing DNA, and loaded them with his new DNA sequences.<sup>285</sup> It’s curious that the *Nehls* panel chose this case as the vehicle for a sweeping “descriptive material” rule and

<sup>273</sup> *Curry*, 84 USPQ2d at 1274-75.

<sup>274</sup> *Curry*, 84 USPQ2d at 1274.

<sup>275</sup> See *Curry*’s file history, Ser. No. 09/449,237, Appeal Brief (Oct 8, 2003), Examiner’s Answer (April 2, 2004), Reply Brief (Jul. 8, 2004).

<sup>276</sup> *Curry*, 84 USPQ2d at 1275.

<sup>277</sup> *Ex parte Nehls*, 88 USPQ2d 1883 (BPAI 2008).

<sup>278</sup> *Nehls*, 88 USPQ2d at 1890.

<sup>279</sup> *Nehls*, 88 USPQ2d at 1889.

<sup>280</sup> *Nehls*, 88 USPQ2d at 1888 n.3.

<sup>281</sup> *Lowry*, *supra* note 268.

<sup>282</sup> A search of all federal appellate courts for “alternative grounds” and “dictum” yields only one case in which a party even raised the issue. The court rejected the proposition. *Biltmore Forest Broadcasting FM, Inc. v. U.S.*, 555 F.3d 1375, 1383 (Fed. Cir. 2009).

<sup>283</sup> *Lowry*, 32 F.3d at 1583, 32 USPQ2d at 1034, *Gulack*, 703 F.2d at 1385 n.8, 217 USPQ at 403 n.8.

<sup>284</sup> E.g., *Allergan Inc. v. Apotex Inc.*, 754 F.3d 952, 963, 111 USPQ2d 1245, 1252-53 (Fed. Cir. 2014) (species claim may be obvious over disclosed genus).

<sup>285</sup> *Nehls*, 88 USPQ2d at 1887.

stated its new and unnecessary rule with no meaningful limiting principles.

The PTAB’s “nonfunctional descriptive material” decisions neglect to explain how the Board believed it surmounted three statutory barriers to the jurisdiction the Board purported to exercise:

- On their face, these decisions are substantive rulemaking, outside the PTO’s rulemaking authority under 35 U.S.C. § 2(b)(2).<sup>286</sup>
- The PTAB has no authority to promulgate any rules (substantive or procedural) on its own authority—rulemaking is a power of the Director.<sup>287</sup>
- The PTAB “is not free to refuse to follow [Federal Circuit] precedent.”<sup>288</sup> The creation of new rationale in *Curry* and *Nehls*, and brushing aside the reasoning of *Lowry*, are difficult to square with any lawful exercise of adjudicatory authority by a subordinate tribunal.

and, on procedural law:

- The PTAB regularly cites the “informative” *Curry*, even though SOP2 instructs that it is not to be so cited.<sup>289</sup>

The “nonfunctional descriptive material” decisions<sup>290</sup> have imposed *immense* costs on the public. A recent webinar<sup>291</sup> noted that over 34,000 PTO Office Actions have invoked “nonfunctional descriptive material” as a basis to deny weight to

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<sup>286</sup> See LUBBERS, RULEMAKING, *supra* note 27, and Boundy, *Part 1: Rulemaking Primer*, *supra* note 3, for tests to distinguish “substantive” from “procedural” rules.

<sup>287</sup> See § II.A and notes 133 and 133 and their accompanying text.

<sup>288</sup> *In re Lee*, 277 F.3d 1338, 1344, 61 USPQ2d 1430, 1434 (Fed. Cir. 2002).

<sup>289</sup> *E.g.*, *Ex parte Kneckt*, 13/822,196, Appeal No. 2017-000119, <https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&fNm=f d2017000119-10-19-2018-1> at 4, 2018 WL \_\_\_\_ at \* \_\_\_\_ (PTAB Oct. 23, 2018).

<sup>290</sup> There’s a third, *Ex parte Mathias*, 84 USPQ2d 1276 (BPAI 2005), but because the *Mathias* application remains confidential under pre-1999 § 122, the briefs are not available, so it’s not discussed in this article.

<sup>291</sup> <http://knowledge.reedtech.com/all-ip-resources/on-demand-webinar-alice-before-alice> (Sept. 25, 2017).

claim language, almost all from the computer-related art units where *Lowry* holds that there should be “no factual relevance” and “no analogy” to the printed matter cases.<sup>292</sup>

While the reasoning of the several dozen recent “descriptive material” cases reviewed in preparing this Article is easy to reconcile with *Nehls* and *Curry*, any effect of *Lowry* on the PTAB’s deliberative process is not apparent—I found no recent PTAB decision that included (accurate) quotes from *Lowry* to distinguish, let alone to follow.<sup>293</sup> Even after *DiStefano* clearly held that there’s only a “printed matter” rule, reached after a step one separates “printed matter” from other “descriptive material,” the PTAB regularly issues decisions that skip over the first of the Federal Circuit’s two steps, and misquotes sources to resurrect its pet “descriptive material” rule.<sup>294</sup>

The whole matter is deeply puzzling.

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<sup>292</sup> *E.g.*, after the Federal Circuit in *In re DiStefano*, 808 F.3d 845, 850, 117 USPQ2d 1265, 1268 (Fed. Cir. 2015) holds that there is no such thing as “descriptive material,” only a “printed matter” rule, and that rule is *not* invoked by claim language that specifies the origin of the data, in *Ex parte Kishikawa*, App. Ser. No. 13/609,199, Appeal 2016-006434, <https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&fNm=f d2016006434-12-14-2017-1> at 9 n.1, 2017 BL 470874 at \*4 n.1, 2017 WL 6939406 at \*4 n.1 (PTAB Dec. 18, 2017) (holding that computer data “obtained by parallel projection” are *Nehls* “non-functional descriptive material”).

<sup>293</sup> *E.g.*, in *Ex parte Huang*, Application 14/026,900, Appeal 2016-005188, <https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&fd2016005188-02-21-2017-1> at 9 n.7, 2017 WL 745133 at \*5 n.7, 2017 BL 55880 at \*4 n.7 (PTAB Feb. 23, 2017), the parenthetical reads “*In re Lowry*, 32 F.3d 1579, 1583 (Fed. Cir. 1994) (holding informational content of non-functional descriptive material is not entitled to patentable weight.)” Not only does *Huang* misquote *Lowry*, somehow *Huang* neglects to mention *DiStefano*.

<sup>294</sup> *E.g.*, *Ex parte Gartner*, App. Ser. No. 13/159, 189, Appeal 2017-011378, <https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&fNm=f d2017011378-06-29-2018-1> at 5-6, 2018 WL 3438888 at \*3-\*4 (PTAB Jul. 3, 2018).

#### IV.G. *Ex parte Gutta* and claims rejected on multiple grounds

In *Ex parte Gutta*, the PTAB affirmed a § 101 rejection and relied on that affirmance to decline to reach appeals of prior art rejections.<sup>295</sup> The PTAB regularly cites *Gutta* as a basis to decline to analyze anticipation or obviousness after affirming an examiner's rejection on some other issue.<sup>296</sup>

The PTAB is not an Article III court, let alone an Article III court of appeals.<sup>297</sup> The PTAB's review of *ex parte* rejections has very few procedural analogies to the Federal Circuit's review of agency action.

- Article III's requirements for standing do not apply to executive branch agencies—for example, an agency may issue an advisory opinion in favor of a party with no injury.<sup>298</sup>
- The PTAB is covered by Title 5, Chapter 5, Subchapter II (§ 551 *et seq.*, the agency-facing provisions of the APA), while the Federal Circuit is governed by Title 5, Chapter 7 (§ 701 *et seq.* on judicial review).

Because of these differences, analogies are far from automatic. Options available to an Article III court of appeals, such as stopping after deciding a single dispositive issue,<sup>299</sup> are not available (at least not on a broad *per se* basis) to the PTAB.

On *ex parte* appeals, the PTAB is governed by § 555 of the Administrative Procedure Act. Section § 555(b) requires agencies to “conclude matters presented” to them. Section 555(e) requires agencies to give “a brief statement of grounds” for any unfavorable action. A “statement of grounds” may be excused when the decision “affirm[s] a prior denial or

when the denial is self-explanatory,” § 555(e), but these exceptions are very narrow:

Prior denial would satisfy [the ‘prior denial’ exception] only where the grounds previously stated remain the actual grounds and sufficiently notify the party. A self-explanatory denial must meet the same test; that is, the request must be in such form that its mere denial fully informs the party of all he would otherwise be entitled to have stated.<sup>300</sup>

As a general rule, § 555(e) and case law interpreting it require that when deciding an *ex parte* appeal, the PTAB must demonstrate “reasoned decisionmaking” on each issue presented.<sup>301</sup> The agency need not give an explicit argument-by-argument response, but the reasoning must demonstrate clarity on each issue. This has become *more* important as the inquiry for § 101 subject matter moves closer to the § 102/§ 103 prior art inquiry.

Neither the PTO nor PTAB have authority to attenuate a procedural statute that operates in favor of the public (the Administrative Procedure Act) by regulation, let alone by “precedential” decision. In

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<sup>295</sup> *Ex parte Gutta*, 93 USPQ2d 1025, 1036 (BPAI 2009) (precedential).

<sup>296</sup> See note 303, *infra*.

<sup>297</sup> See note 6, *supra*.

<sup>298</sup> *E.g.*, *Consumer Watchdog v. Wisconsin Alumni Research Fdn*, 753 F.3d 1258, 1261, 111 USPQ2d 1241, 1243 (Fed. Cir. 2014) (noting differences in standing requirements between agencies and Article III courts); *National Treasury Employees' Union v. Federal Labor Relations Auth.*, 30 F.3d 1510, 1513, 1516 (D.C. Cir. 1994) (contrasting an agency's ability to render an advisory opinion against an Article III court's inability).

<sup>299</sup> Article III courts of appeals can stop after deciding one dispositive issue. *E.g.*, *In re Basell Poliolefine*, 547 F.3d 1371, 1379 (Fed. Cir. 2008).

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<sup>300</sup> *Roelofs v. Secretary of the Air Force*, 628 F.2d 594, 600 n.33 (D.C. Cir. 1980), *quoting* Senate Committee Report, S.Doc.No. 248, 265–68 (1946); See also S.Doc.No. 248, 206 (1946); ATTORNEY GENERAL'S MANUAL, note 33 *supra* at 69–70. The Federal Circuit, in *Beloit Corp. v. Valmet Oy*, 742 F.2d 1421, 1423, 223 USPQ 193, 194 (Fed. Cir. 1984), stated that the United States International Trade Commission “is at perfect liberty to reach a . . . determination on a single issue.” This is at best an over-generalization. Apparently the parties in *Beloit* did not inform the court of several relevant APA principles (the court's understanding on other issues of administrative law is plainly deficient), so *Beloit* is not strong authority on the issue of the PTAB's discretion to decide less than all issues.

<sup>301</sup> *SEC v. Chenery Corp.*, 318 U.S. 80, 94 (1943) (an administrative agency must describe its reasoning with “such clarity as to be understandable”); *Chen v. Mukasey*, 510 F.3d 797, 801–02 (8th Cir. 2007) (agency must consider facts that “detract[] from the administrative finding”), *citing Universal Camera Corp. v. NLRB*, 340 U.S. 474, 487–88 (1951). The APA forbids piecemeal adjudication. 5 U.S.C. § 555(b) (“With due regard for the convenience and necessity of the parties . . . within a reasonable time, each agency shall proceed to conclude a matter presented to it.”).

most cases, the PTAB should be deciding all issues presented to it.

*Gutta* also illustrates the importance of the “indexing” requirement of § 552. In May 2018, the PTAB’s “precedential” opinion page indexed *Gutta* as “precedential” for § 101 subject matter, and for a § 112(b)/§ 112(f) “means-plus-function language without supporting algorithm” issue, but *not* for declining to decide grounds raised in an appeal.<sup>302</sup> Nonetheless, as of late May 2018, all ten of the most recent cites to *Gutta* in the PTAB’s reading room of *ex parte* decisions cite *Gutta* for the proposition here, declining to decide prior art issues after affirming on § 101, not the issues for which it is designated “precedential.”<sup>303</sup> And even more surprising, *Gutta* was de-designated no later than June 15, 2018, yet panels continued to cite it.<sup>304</sup>

PTAB panels overstep their bounds in relying on *Gutta* for a proposition that is contrary to law and for which *Gutta* is *not* designated “precedential.”

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<sup>302</sup> The Wayback Machine did not capture the version of the “precedential” page relied on in early drafts of this article, before *Gutta* was moved to “archived” status, but the issue indexing is visible in the June 15 version. <https://www.uspto.gov/patents-application-process/patent-trial-and-appeal-board/precedential-informative-decisions>.

<sup>303</sup> <https://e-foia.uspto.gov/Foia/PTABReadingRoom.jsp> search keyword “Gutta” *E.g., Ex parte Bechtold*, Application 13/754,786, Appeal No. 2017-003023, [https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&flNm=f\\_d2017003023-05-16-2018-1](https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&flNm=f_d2017003023-05-16-2018-1) at 9, 2018 WL 2383699 at \*6 (May 18, 2018).

<sup>304</sup> The Wayback Machine capture of June 15 2018 shows *Gutta* moved to “archived.” <https://web.archive.org/web/20180615052109/https://www.uspto.gov/patents-application-process/patent-trial-and-appeal-board/precedential-informative-decisions>. Yet it’s cited as precedent—for the wrong proposition—in *Ex parte Chen*, Application 13/550,384, Appeal 2018-001238, [https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&flNm=f\\_d2018001238-08-21-2018-1](https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&flNm=f_d2018001238-08-21-2018-1) at 3 n.3, 2018 WL 4357061 at \_\_\_ n.3 (PTAB Aug. 23, 2018).

#### IV.H. *Idle Free v. Bergstrom* and IPR/PGR motions to amend

*Idle Free Systems, Inc. v. Bergstrom, Inc.*<sup>305</sup> was one of the first “informative” decisions under the IPR regime created by the America Invents Act. *Idle Free* concerned conditions for a patent owner to amend claims in an IPR.<sup>306</sup>

The IPR regulations set three requirements for a motion to amend, only one of which requires an explanation.<sup>307</sup> The Federal Register Notice, announcing this regulation as a final rule, assured in multiple ways that three requirements, one explanation, were exhaustive of requirements: “The motion [to amend claims] will be entered so long as it complies with the timing and procedural requirements.”<sup>308</sup>

Nonetheless, a few months later, an “informative” opinion—citing no authority other than three APJs’ personal sense of “we expect”—added fourth, fifth, and sixth requirements, and second, third, and fourth explanations:

For each proposed substitute claim, *we expect* a patent owner: (1) in all circumstances, to make a showing of patentable distinction over the prior art;

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<sup>305</sup> *Idle Free Systems, Inc. v. Bergstrom, Inc.*, IPR2012-00027 paper no. 26, 2013 WL 12126103, [https://www.uspto.gov/sites/default/files/ip/boards/bpai/decisions/inform/ipr2012-00027\\_idle\\_free\\_system\\_v\\_bergstrom\\_paper\\_26.pdf](https://www.uspto.gov/sites/default/files/ip/boards/bpai/decisions/inform/ipr2012-00027_idle_free_system_v_bergstrom_paper_26.pdf) (PTAB Jun. 11, 2013) (informative). *Idle Free* is discussed in more detail in Part 2 of this series, Boundy & Freistein, *Part 2: Aqua Products v. Matal*, *supra* note 4. See also note 189.

<sup>306</sup> *Idle Free Sys., Inc. v. Bergstrom, Inc.*, note 305 *supra*, Boundy & Freistein, *Part 2: Aqua Products v. Matal*, *supra* note 4.

<sup>307</sup> The three requirements are: (a) the amendment must “respond to a ground of unpatentability involved in the trial” (but there’s no requirement to explain), (b) the amendment may not “seek to enlarge the scope of the claims ... or introduce new subject matter” (but with no requirement to explain), and (c) the amended claims must have § 112(a) support (*and* the patent owner must explain that support) 37 C.F.R. § 42.121(a)(2)(i), (ii), and (b).

<sup>308</sup> Patent and Trademark Office, *Changes to Implement Inter Partes Review Proceedings, Post-Grant Review Proceedings, and Transitional Program for Covered Business Method Patents, Final Rule*, 77 Fed. Reg. 48,680 48,690 (Aug. 14, 2012)

(2) in certain circumstances, to make a showing of patentable distinction over all other proposed substitute claims for the same challenged claim; and (3) in certain circumstances, to make a showing of patentable distinction over a substitute claim for another challenged claim . . . . For a patent owner’s motion to amend, 37 C.F.R. § 42.20(c) places the burden on the patent owner to show a patentable distinction of each proposed substitute claim over the prior art.<sup>309</sup>

The *Idle Free* decision violates most of the “only if’s” of § II.F for rulemaking by adjudication:

- 35 U.S.C. § 316(a) grants the PTO relevant rulemaking authority<sup>310</sup> However, § 316(a) lodges that rulemaking authority in the *Director* of the PTO, not the PTAB.
- *Idle Free* was issued as an “informative” opinion, with vetting only by the PTAB itself, not by the rest of the agency.<sup>311</sup>
- *Idle Free* fits none of the exemptions of § 553(b)(A) and § 553(d)—thus, it could not have been promulgated by adjudication, only by notice and comment.
- *Idle Free* changes paperwork burdens, and thus, it could only be promulgated with the procedures required by the Paperwork Reduction Act.<sup>312</sup>
- *Idle Free* does not interpret an ambiguity; it adds new requirements made up out of whole cloth.

Despite its status as merely “informative,” *Idle Free* was cited well over 100 times as authority to deny entry of amended claims in IPR and PGR proceedings.<sup>313</sup>

The Federal Circuit set aside *Idle Free* in its *Aqua Products* decision.<sup>314</sup> The common ground on which a majority of the fragmented court could agree was that “[t]he Patent Office cannot effect an end-run around

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<sup>309</sup> *Idle Free Sys., Inc. v. Bergstrom, Inc.*, note 305 *supra*, slip op. at 6–7 (emphasis added).

<sup>310</sup> 35 U.S.C. § 316(a) (“The Director shall prescribe regulations” for conduct of IPRs).

<sup>311</sup> *Idle Free Sys., Inc. v. Bergstrom, Inc.*, note 305 *supra*, slip op. at 1.

<sup>312</sup> 44 U.S.C. §§ 3506, 3507, 3512; 5 C.F.R. §§ 1320.9 and 10.

<sup>313</sup> Westlaw Keycite spring 2018.

<sup>314</sup> *Aqua Products*, *supra* note 5, and the explanation in Boundy & Freistein, *supra* note 4.

[the APA] by conducting rulemaking through adjudication.”<sup>315</sup> *Idle Free* only arose because of lack of understanding of APA rulemaking by senior APJs of the PTAB.

#### IV.I. *Ex parte* *McAward* and its substantive new “approach to indefiniteness that fundamentally differs from a court’s”

*Ex parte* *McAward*, decided in August of 2017, was designated “precedential.”<sup>316</sup> *McAward*’s invention relates to household plumbing. The issue was definiteness of the phrase “configured to be reliably installed by an untrained installer or a homeowner and to not require the services of a plumber or electrician.”<sup>317</sup>

Only months before, the definiteness standard had been clarified by the Supreme Court in *Nautilus, Inc. v. Biosig Instruments, Inc.* and by the Federal Circuit in *In re Packard*.<sup>318</sup> The Supreme Court specified that in a post-issue litigation context, the standard was “reasonable certainty.”<sup>319</sup> The Federal Circuit, addressing the procedures to be applied by the PTO to pre-issuance claims, specified “reasonable precision” as the substantive standard.<sup>320</sup> Neither court uses any superlative such as “as definite as possible.”

In *McAward*, the PTAB adopts “an *approach* to resolving questions of compliance with § 112 that fundamentally differs from a court’s approach to indefiniteness” (emphasis in *McAward*).<sup>321</sup> *McAward* adopts this “approach” to “ensure[ ] that claims . . .

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<sup>315</sup> *Aqua Products*, 872 F.3d at 1339, 124 USPQ2d at 1287 (Reyna, J. concurring). A longer discussion of the PTAB’s procedural lapses in *Idle Free* are discussed in Part 2 of this article series. See Boundy & Freistein, *supra* note 4.

<sup>316</sup> *Ex parte* *McAward*, Application 13/435,655, Appeal No. 2015-006416, 2017 WL 3669566 (PTAB Aug. 25, 2017) (Horner, APJ) (precedential).

<sup>317</sup> *McAward*, 2017 WL 3669566 at \*1.

<sup>318</sup> *Nautilus, Inc. v. Biosig Instruments, Inc.*, 572 U.S. 898, 134 S.Ct. 2120, 110 USPQ2d 1688 (2014); *In re Packard*, 751 F.3d 1307, 110 USPQ2d 1785 (Fed. Cir. 2014).

<sup>319</sup> *Nautilus*, 572 U.S. at \_\_\_, 134 S.Ct. at 2124, 110 USPQ2d at 1690.

<sup>320</sup> *Packard*, 751 F.3d at 1313, 110 USPQ2d at 1789 (“The USPTO, in examining an application, is obliged to test the claims for reasonable precision”).

<sup>321</sup> *McAward*, 2017 WL 3669566 at \*2.

are as precise, clear, correct, and unambiguous as possible.”<sup>322</sup>

In discussing this new, different-than-court “approach,” and new superlative standard, *McAward* cites no precedential authority. Rather, for its key holding, the *McAward* panel cites two *amicus* briefs, and a one-judge concurring opinion, as if they were precedent.<sup>323</sup> *McAward* is notably silent in attempting to reconcile its approach with any precedent. *McAward* doesn’t even mention Federal Circuit cases that apply a “reasonableness” standard to pending claims to find sufficient definiteness in “configured to,” “capable of,” and similar use-based or non-structural language, or language that defines the invention by its interactions with surrounding context, let alone attempt to distinguish them.

Nor does the *McAward* panel identify any basis for its exercise of substantive rulemaking authority.

The PTAB has neither substantive rulemaking authority nor policy authority.<sup>324</sup> The PTAB does not have authority to define new legal approaches that deviate from Federal Circuit precedent.<sup>325</sup> If the PTO believes that a different approach to substantive law is warranted, one of its options is for the *Director* to act under the *Good Guidance Bulletin* procedural mechanism, discussed below in § V.D.

#### IV.J. *General Plastic v. Canon KK* and expanded panels

In September 2017, the PTAB issued *General Plastic Industrial Co., Ltd. v. Canon Kabushiki Kaisha*<sup>326</sup> as a precedential opinion. *General Plastic*

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<sup>322</sup> *McAward*, 2017 WL 3669566 at \*3.

<sup>323</sup> *McAward*, 2017 WL 3669566 at \*3, citing two briefs of the government *amicus curiae*, and at \*4, citing *Packard*, 751 F.3d at 1323-24, 110 USPQ2d at 1796 (Plager, J., concurring).

<sup>324</sup> See notes 8, 133, and 270.

<sup>325</sup> *In re Lee*, 277 F.3d 1338, 1344, 61 USPQ2d 1430, 1434 (Fed. Cir. 2002) (“An agency is not free to refuse to follow [Federal Circuit] precedent.”).

<sup>326</sup> *General Plastic Industrial Co., Ltd. v. Canon Kabushiki Kaisha*, IPR2016-01357 paper no. 19, [https://www.uspto.gov/sites/default/files/documents/General%20Plastic%20Industrial%20Co.%2C%20Ltd.%20v.%20Canon%20Kabushiki%20Kaisha%20IPR2016-01357\\_Paper%2019\\_.pdf](https://www.uspto.gov/sites/default/files/documents/General%20Plastic%20Industrial%20Co.%2C%20Ltd.%20v.%20Canon%20Kabushiki%20Kaisha%20IPR2016-01357_Paper%2019_.pdf), 2017 WL 1215754 (Sept. 6, 2017).

discusses two issues and is designated “precedential” for one and “informative” for the other.<sup>327</sup>

#### IV.J.1. *General Plastic* and “precedential” discussion of follow-on petitions

Since IPRs began in 2012, the PTAB has faced a recurring issue: a petitioner files a first IPR petition, that petition is denied, and then the petitioner files a second petition against the same patent—perhaps the same claims, perhaps different, perhaps different prior art.<sup>328</sup> When should the PTAB institute, and when should the petition be denied in interest of repose? The original IPR regulations promulgated in 2012 provided almost no guidance on the issue.<sup>329</sup> In its 2016 round of amendments to the IPR and PGR rules, the PTO punted again:

[T]he current rules provide sufficient flexibility to address the unique factual scenarios presented to handle efficiently and fairly related proceedings before the Office on a case-by-case basis, and that the Office will continue to take into account the interests of justice and fairness to both petitioners and patent owners where multiple proceedings involving the same patent claims are before the Office.<sup>330</sup>

After a host of nonprecedential decisions<sup>331</sup> and multiple “informative” opinions,<sup>332</sup> in September

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<sup>327</sup> [.../precedential-informative-decisions](#), note 172, *supra*.

<sup>328</sup> See notes 331 and 332.

<sup>329</sup> *E.g.*, 37 C.F.R. § 42.108.

<sup>330</sup> Patent and Trademark Office, *Amendments to the Rules of Practice for Trials Before the Patent Trial and Appeal Board*, 81 Fed. Reg. 18750, 18759 (Apr. 1, 2016).

<sup>331</sup> *E.g.*, *NVIDIA Corp. v. Samsung Elec. Co.*, IPR2016-00134, paper 9 (PTAB May 4, 2016) (enumerating seven factors in denying second-bite petitions, in turn citing several more nonprecedential decisions—see § II.B.3); *Toyota Motor Corp. v. Cellport Systems, Inc.*, IPR2015-01423, paper no. 7 (Oct. 28, 2015) (denying second bite petition).

<sup>332</sup> *e.g.*, *Conopco, Inc. dba Unilever v Procter & Gamble Co.*, IPR2014-00506 paper no. 24, [https://www.uspto.gov/sites/default/files/documents/ipr2014\\_00506\\_conopco\\_inc\\_v\\_procter\\_and\\_gamble\\_co\\_07\\_07\\_2014\\_p17.pdf](https://www.uspto.gov/sites/default/files/documents/ipr2014_00506_conopco_inc_v_procter_and_gamble_co_07_07_2014_p17.pdf), 2014 WL 12819684 at \*2 (Dec 10, 2014) (formerly informative, now archived) (denying a second-bite petition); *Medtronic, Inc. v. NuVasive, Inc.*, IPR2014-00487, Paper 8,

2017, the PTAB issued *General Plastic* as a precedential opinion, with a list of seven discretionary factors to be weighed in instituting on a follow-on petition.<sup>333</sup>

*General Plastic*'s discussion of follow-on petitions is well within the PTAB's "informative" discretion—the decision, by its terms, only sets out a non-exhaustive list of discretionary factors to be weighed. This is a classic "general statement of policy" under § 553(a), for which no notice and comment is required, and which has no binding effect on either the agency or on the public.<sup>334</sup> Nonetheless, it's designated "precedential." When a decision says so little, it's a little odd to designate it "precedential" instead of "informative," but in this case, it violates no law.

All of this is conditioned on the public having proper § 552 notice. No such notice was given when *General Plastic* was issued in September 2017, a defect which has since been partially cured by the PTAB's new web site.<sup>335</sup>

#### IV.J.2. *General Plastic* and "informative" discussion of expanded panels

The movant in *General Plastic* requested an expanded panel to decide the petition to institute.<sup>336</sup>

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[https://www.uspto.gov/sites/default/files/ip/boards/bpai/decisions/inform/IRP2014-00487\\_medtronic\\_inc\\_v\\_nuvasive\\_inc\\_paper\\_8.pdf](https://www.uspto.gov/sites/default/files/ip/boards/bpai/decisions/inform/IRP2014-00487_medtronic_inc_v_nuvasive_inc_paper_8.pdf), 2014 WL 4594734 at \*4-\*5 (Sept. 11, 2014) (informative) (denying second-bite petition); *Medtronic, Inc. v. Robert Bosch Healthcare Sys., Inc.*, IPR2014-00436, Paper 17, .../IPR2014-00436\_medtronic\_inc\_v\_robert\_bosch\_healthcare\_systems\_inc\_paper\_17.pdf, 2014 WL 2810474 at \*6-\*8 (June 19, 2014) (denying second-bite petition); *Intelligent Bio-Sys., Inc. v. Illumina Cambridge Ltd.*, IPR2013-00324, Paper 19, .../IPR2013-00324\_intelligent\_bio-systems\_inc\_v\_illumina\_cambridge\_limited\_paper\_19.pdf (Nov. 21, 2013) (denying second-bite petition); *ZTE Corp. v. ContentGuard Holdings Inc.*, Case IPR2013-00454, Paper 12, .../IPR2013-00454\_zte\_corp\_v\_contentguard\_holdings\_inc\_paper\_1\_2.pdf (Aug. 25, 2013) (denying second-bite petition).

<sup>333</sup> *General Plastic*, *supra* note 326, at 9-10.

<sup>334</sup> See § II.B.1.

<sup>335</sup> .../precedential-informative-decision, note 172, *supra*.

<sup>336</sup> *General Plastic*, *supra* note 326, at 3

The "informative" discussion of standards for appointing expanded panels begins as follows:

Our governing statutes and regulations do not permit parties to request, or panels to authorize, an expanded panel. *See generally* 35 U.S.C. § 6; 37 C.F.R. §§ 41.1–42.412; *see also AOL Inc. v. Coho Licensing LLC*, Case IPR2014-00771, slip op. at 2 (PTAB Mar. 24, 2015) (Paper 12) ("[P]arties are not permitted to request, and panels do not authorize, panel expansion."). Our standard operating procedures, however, provide the Chief Judge with discretion to expand a panel to include more than three judges . . . The Chief Judge may consider panel expansions upon a "suggestion" from a judge, panel, or party in a post-grant review.<sup>337</sup>

The three sentences of this paragraph break down as follows:

- The first sentence (and the parenthetical from *AOL*) gets it just exactly backwards. Under U.S. administrative law, the default is permissive: unless a statute or *regulation* specifically requires or forbids, anything a member of the public might wish to do is permissible and optional. Vis-à-vis the public, silence is permissive. In this case, silence is a grant of authority to the public to request expanded panels.
- The middle sentence misplaces authority. The Board's standard operating procedures are no more than advisory policy statements; agency authority and jurisdiction are only conferred by statute.<sup>338</sup>
- The last sentence corrects the inaccuracy to reach the right result: the Chief Judge is not precluded from entertaining *a priori* requests for expanded panels to decide individual cases (at least not by rulemaking law, the scope of this article—*sua sponte* expansion of panels to reverse earlier decisions, *a la In re Alappat*<sup>339</sup>, properly rouses suspicion as a matter of administrative and Constitutional due process.).

The *General Plastic* opinion continues by noting that the "exceptional nature of the issues presented"

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<sup>337</sup> *General Plastic*, *supra* note 326, at 4.

<sup>338</sup> See § III.A.

<sup>339</sup> *In re Alappat*, 33 F.3d 1526, 1532 n.4, 31 USPQ2d 1545, 1548 n.4 (Fed. Cir. 1994) (*en banc*) (declining to address a challenge to panel stacking, because raised in an *amicus* brief, not by the parties).

warrants granting the request for expanded panels<sup>340</sup>—again, in a way that fits within the PTAB’s authority—even though the underlying reasoning is unfounded.

Since *General Plastic* only states non-binding aspirational factors, it’s a perfectly valid (though non-binding) “statement of general policy” and properly designated as “informative” to the extent that it simply restates underlying law. The reasoning is flawed, and the PTAB should not follow *that*. Likewise, on issues of substantive law, expanded panels have only the power to decide single cases (which, of course, may have persuasive, informative effect on later panels) but have no more rulemaking authority than three-APJ panels. However, that issue was not raised or decided. The end result—relieving restrictions on motions for expanded panels and explaining non-binding factors by which such a motion might be decided—is a proper subject for a “housekeeping” rule and an “informative” decision.<sup>341</sup>

#### IV.K. Interlocutory and non-final orders

Section 552(a)(2)(A) requires that interlocutory and non-final orders, such as remands, motion decisions, and subject matter dismissals, be available on the agency’s web site.<sup>342</sup> These decisions are important to help the public understand PTAB procedure.

When the PTO first made its *ex parte* appeal opinions available on the web in the late 1990s, these interlocutory decisions were available in the Board’s reading room and readily found by Google search. But those non-final orders were removed in the mid 2000s. While they can still be located in individual file histories if one already knows where to look, there’s no easy way to find them today.

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<sup>340</sup> *General Plastic*, *supra* note 326, at 4-5.

<sup>341</sup> As this article is in its final edit phase, the PTO updated is Standard Operating Procedure 1, *Assignment of Judges to Panels (revision 15)* <https://www.uspto.gov/sites/default/files/documents/SOP%201%20R15%20FINAL.pdf> (retrieved Sep. 21, 2018). New SOP1 only sets internal housekeeping procedures, without setting conditions on any member of the public for requesting panel composition (except that the member of the public must request it in a written brief), and is thus a proper “housekeeping” rule.

<sup>342</sup> 5 U.S.C. § 552(a)(2)(A).

#### IV.L. Routine decisions cited as binding authority

Many PTAB decisions cite nonprecedential decisions (informative, representative, and often just plain “routine”) as precedent.<sup>343</sup> If these decisions were first raised in party papers, so that the opposing party had “actual and timely notice” as required by § 552(a),<sup>344</sup> and they are cited in only an “informative,” advisory role,<sup>345</sup> this seems unobjectionable.

However, on occasion the PTAB relies on a routine decision that was not raised by the parties, for an outcome-determinative proposition.<sup>346</sup> It would seem that the party ruled against would have a near *per se* basis for reversal at the Federal Circuit.

#### V. Observations and recommendations

Everybody makes mistakes. The PTAB can’t be faulted for an occasional error. The remarkable thing about the examples in § IV is that the PTAB exercised its considered judgment to chose these opinions as its best and most important work. Every other tribunal recognizes that its governing procedural law is just as important to fair and accurate outcomes as is the substantive law. The consistent lack of awareness of half the law is troubling.

Better understanding and application of basic principles of administrative law would improve operations of the PTAB. This § V proposes some solutions.

##### V.A. Observation

At a hearing of the Patent Public Advisory Committee (PPAC) on August 3, 2017,<sup>347</sup> the Chair of

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<sup>343</sup> Examples are cited in notes 331 and 332.

<sup>344</sup> see § II.B.3, *supra*

<sup>345</sup> see § III.D, *supra*

<sup>346</sup> *E.g., Yahoo! Inc. v. AlmondNet, Inc.*, Decision denying CBM institution, CBM2017-00058 paper no. 7 at 16, 2017 WL 6206286 at \*7 (PTAB Nov. 22, 2017) (relying on *Facebook, Inc. v. Skky, LLC*, CBM2016-00091 paper 12 (PTAB Sept. 28, 2017)—at the time, *Facebook* was only “routine;” it was not precedential until a month after *Yahoo!*, and *Facebook* was not raised in the party briefs.

<sup>347</sup>

[https://www.uspto.gov/sites/default/files/documents/PPA\\_C\\_Transcript\\_20170803.pdf](https://www.uspto.gov/sites/default/files/documents/PPA_C_Transcript_20170803.pdf) at 184-187, and

the PPAC asked a question of Chief APJ David Ruschke, relating to the then-pending *Aqua Products* case, concerning the *Idle Free* rule promulgated by “informative” opinion.<sup>348</sup> Chief APJ Ruschke and Acting-as-Director Matal answered as follows:

Q: Is it proper to have the Board making rules through adjudication? What about the public’s right to notice and comment? What about the Administrative Procedure[ ] Act? Aren’t you avoiding the whole process of safeguards?

A, Chief APJ Ruschke: No . . . If it’s in the rules, we follow the rules . . . But as any judicial body, we do have the precedential opinion process [and a number of guidance documents] . . . Ultimately, the Federal Circuit will be reviewing our decisions and monitoring us to make sure that we are complying with the Administrative Procedures Act . . .

A, Acting Director Matal: . . . I’m very curious to hear the Federal Circuit tell us whether the statutory grant of authority for us to set standards and procedures for amendments allows us to set standards and procedures for amendments.

In answers that totaled nearly two minutes, neither acknowledged the limits imposed by the APA.<sup>349</sup> Neither mentioned infrastructure or process within the PTO (analogous to the regulatory compliance department at any private-sector firm) to ensure the agency follows obligations under the APA.<sup>350</sup> Both

suggest that the PTAB’s approach is to shoot first, and defend suit later.

In October 2017, *Aqua Products* was decided. *Aqua Products* criticized the PTO for designating a rule as “procedural” when it was clearly substantive.<sup>351</sup> Of the five opinions in *Aqua Products*, Judge Reyna’s swing opinion consolidates the thoughts of a majority of the court in a single sentence: “The Patent Office cannot effect an end-run around [the APA] by conducting rulemaking through adjudication . . .”<sup>352</sup>

Yet, only seven months later, in a Notice of Proposed Rulemaking, the PTAB published a proposed regulation to change the IPR/PGR claim construction.<sup>353</sup> This Notice of Proposed Rulemaking exposes two interesting incongruities in the effect *Aqua* has had on the PTAB’s rulemaking process:

- The Notice characterizes this paradigmatically-substantive rule as “procedural.”<sup>354</sup>
- This Notice gives only a “bare bones” proposal for changing the substantive claim construction standard, with no discussion (let alone proposed regulations) for procedural implementation. As *Aqua* notes, the statute requires that PTAB IPR/PGR rules be promulgated by “regulation,” and cannot be effective against the public without publication in the Federal Register.<sup>355</sup> The only

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<https://livestream.com/accounts/4828334/events/7618857/videos/160736888> at 1:03:38.

<sup>348</sup> *Idle Free Sys., Inc. v. Bergstrom, Inc.*, note 305, and § IV.H, *supra*.

<sup>349</sup> See transcript, note 347.

<sup>350</sup> In 2011, the PTO requested comment on the PTO’s compliance with rulemaking law, and how the PTO could improve its rulemaking process to better align with the public interest. The letters are at <https://www.uspto.gov/patent/laws-and-regulations/comments-public/comments-improving-regulation-and-regulatory-review> My letter, <https://www.uspto.gov/patents/law/comments/boundy23may2011.pdf>, has a number of suggestions for improving the PTO’s regulatory process. A letter by Richard Belzer, who was in the Office of Information and Regulatory Affairs, OMB’s regulatory review shop, is at <https://www.uspto.gov/sites/default/files/patents/law/comments/belzer14apr2011.pdf> Dr. Belzer also gives helpful (but rather pointed) insight and diagnosis, and a trenchant (but painful) treatment plan.

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<sup>351</sup> *Aqua Products*, *supra* note 5, 872 F.3d at 1319-21 (O’Malley, J., plurality opinion); 872 F.3d at 1331-32 (Moore, J., concurring).

<sup>352</sup> *Aqua Products*, *supra* note 5, 872 F.3d at 1339 (Reyna, J. concurring).

<sup>353</sup> Patent and Trademark Office, *Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board*, RIN 0651-AD16, 83 Fed. Reg. 21221 (May 9, 2018).

<sup>354</sup> *IPR/PGR Claim Construction (supra note 353)*, 83 Fed. Reg. at 21224, col. 3.

<sup>355</sup> *Aqua Products*, *supra* note 5, 872 F.3d at 1320, 124 USPQ2d at 1274 (O’Malley, J., plurality opinion) (noting the requirement to publish in the Federal Register); 872 F.3d at 1321 n.10, 124 USPQ2d at 1275 n.10 (O’Malley, J) (“Even the PTO does not suggest in its briefing to us that anything in any of its Federal Register commentaries supports its position.”); 872 F.3d at 1322, 124 USPQ2d at 1276 (O’Malley, J) (“We require that the PTO comply with its obligations under the APA and make clear to the public both what it is

permissible route for the necessary implementing procedures is a fully-thought-out Notice of Proposed Rulemaking, proposing all procedural implementing regulations with all the trimmings under all the relevant statutes.

### V.B. For the patent bar

Administrative law is as important at the PTAB as the Federal Rules of Civil Procedure are in federal court. Most of the PTAB judges genuinely do care about the law but can't follow that law if parties don't inform them. A deep familiarity with administrative law is helpful in issue-spotting, initial briefing, motion practice, and in guiding the PTAB to favorable decisions.

Any PTAB decision that cites an earlier PTAB decision in any role beyond the limits set forth in this article should be subject to a request for rehearing and is subject to reversal at the Federal Circuit on a near *per se* basis.

### V.C. For the PTO and PTAB

#### V.C.1. Consequences of limits on substantive rulemaking authority

The Federal Circuit frequently reminds the PTAB that it has no general substantive rulemaking authority.<sup>356</sup> After yet another scolding on the issue, in *Aqua Products*, the PTAB responded by moving the two specific decisions on its "precedential" and

doing and why what it is doing is permissible under the statutory scheme within which it is operating."); 872 F.3d at 1329; 124 USPQ2d at 1280 (Moore, J., concurring) ("If Congress has explicitly left a gap for the agency to fill, there is an express delegation of authority to the agency to elucidate a specific provision of the statute by *regulation*," quoting *Chevron*, 467 U.S. at 843-44, emphasis added in *Aqua*); 872 F.3d at 1332; 124 USPQ2d at 1282 (Moore, J.) (criticizing the PTAB's precedential opinion process for failure to publish in the Federal Register, and for promulgating substantive rules without notice and comment); 872 F.3d at 1339, 124 USPQ2d at 1287 (Reyna, J. concurring, for the swing votes) ("The Patent Office cannot effect an end-run around its congressionally delegated authority by conducting rulemaking through adjudication . . . Nor should the Patent Office be permitted to effect an end-run around the APA's rulemaking process.").

<sup>356</sup> *Koninklijke Philips*, *supra* note 8, 590 F.3d at 1337, 93 USPQ2d at 1234; see also cases cited in note 270.

"informative" pages that were overruled by *Aqua Products*, that is, *Idle Free* and *MasterImage 3D, Inc. v. RealD Inc.*<sup>357</sup> to a new category, "archived."<sup>358</sup> However, a number of other "precedential" and "informative" opinions that suffer from the same defects identified by *Aqua Products* (issues of substantive patent law, and end-runs around the APA) were not redesignated.<sup>359</sup> The reasons for leaving the other erroneously-designated decisions as "precedential" or "informative," to be litigated and invalidated one-by-one, are not apparent. Likewise, the basis for the PTAB to continue to designate new opinions on issues of substantive law as "precedential"<sup>360</sup> (rather than non-binding designations such as "informative") after *Aqua Products* is not clear.

Opinions that have been over-designated at levels that exceed the Board's authority should be down-designated. An agency must accurately inform the public of its current rules, and index them in a form "most useful to the public."<sup>361</sup> Likewise, the Paperwork Reduction Act requires that an agency's rules be "written using plain, coherent, and unambiguous terminology," "to the maximum extent practicable."<sup>362</sup> The Information Quality Act and its

<sup>357</sup> *MasterImage 3D, Inc. v. RealD Inc.*, IPR2015-00040, paper no. 42, [https://www.uspto.gov/sites/default/files/documents/MasterImage\\_3D\\_v\\_RealD\\_IPR2015-00040\\_Paper\\_42.pdf](https://www.uspto.gov/sites/default/files/documents/MasterImage_3D_v_RealD_IPR2015-00040_Paper_42.pdf), 2015 WL 10709290 (PTAB Jul. 15, 2015) (Jameson Lee, APJ).

<sup>358</sup> [.../precedential-informative-decision](#), note 172, *supra*.

<sup>359</sup> [.../precedential-informative-decision](#), note 172, *supra*, continues to list dozens of substantive decisions as precedential in sections "Anticipation – 35 U.S.C. § 102," "Obviousness – 35 U.S.C. § 103," etc.

<sup>360</sup> *E.g.*, *Ex parte Jung*, Appeal 2016-008290, Application 12/541,524, <https://e-foia.uspto.gov/Foia/RetrievePdf?system=BPAI&fNm=fid2016008290-03-20-2017-1> at 4-7 (PTAB Mar. 22, 2017) decides an issue of claim construction, a substantive issue. The decision was designated "precedential" in July 2018, over a year after it was issued, and nine months after *Aqua products* warned against substantive precedent. The PTO corrected its error within a few weeks by de-designating *Jung*.

<sup>361</sup> See 5 U.S.C. § 552(a), notes 33 to 62, and accompanying text.

<sup>362</sup> 44 U.S.C. § 3506(c)(3)(D) and (E)

implementing guidance require agencies *not* disseminate obsolete or misleading information.<sup>363</sup> All of these laws counsel that if an opinion lacks a legal claim to precedential weight or effect, it ought not be designated “precedential” in the first place, and an agency should correct its own errors to limit dissemination of misleading information.

Getting the designation right is important because PTAB members seem to be confused by misdesignation. On the occasion that a party has challenged the Board’s reliance on an invalidly-designated “precedential” or “informative” decision, the Board replies somewhat as follows: “We are bound by the precedential holding of [such-and-such earlier decision], which under Board of Patent Appeals and Interferences Standard Operating Procedure 2 (SOP2) is binding authority on every member of the Board.”<sup>364</sup> This reflects deep misunderstanding of administrative law and the PTAB’s jurisdiction. Later Board panels are not bound by *ultra vires* acts of earlier panels.<sup>365</sup> SOP2 does not create any authority of an earlier panel to exceed its statutory delegation.<sup>366</sup> SOP2 is not a statute and, thus, conveys no authority to create rules of prospective effect, especially not on issues of substantive law.<sup>367</sup> SOP2 has not been promulgated by regulation and, thus, confers no power to act adversely to any member of the public.<sup>368</sup> The PTAB’s Standard Operating Procedures are the kinds of guidance that asymmetrically operate in favor of the public, under the *Accardi* principle. PTAB panels, and the Chief APJ in his role as author of standard operating procedures, lack authority to overrule Federal Circuit decisions that limit the PTAB’s rulemaking authority.<sup>369</sup> PTAB decisions, even precedential decisions, are almost always no more than “interpretative rules,” and thus, the PTO may not rely on them to “foreclose agency consideration of positions advanced by affected private parties.”<sup>370</sup> PTO management should undertake training to ensure

that these principles of administrative law are central to the “competent legal knowledge” expected of Board members.<sup>371</sup> At the March 2018 Federal Circuit Judicial Conference, Judge Plager (the Federal Circuit’s administrative law expert) recommended that all members of the patent bar would do well to understand administrative law, and that a really good starting point is Part 1 of this article series.<sup>372</sup> If it’s a good read for the patent bar, it might be a good read for all adjudicatory staff at the PTO.

### V.C.2. Notice of overruled, withdrawn, and obsolete designations

Obsolete opinions, opinions that exceed the PTAB’s authority and opinions that conflict with Federal Circuit law, should be appropriately tagged, the reasons noted, and the dates of status changes plainly stated.<sup>373</sup> For example, *Ex parte Eggert* was listed on the PTAB’s “precedential” page as late as July 2018, even though subsequent PTAB decisions have recognized that *Eggert* was overruled by subsequent Federal Circuit authority.<sup>374</sup> The cases informing the public that the PTAB would no longer follow *Eggert* are only in *informative* cases<sup>375</sup>—one wonders what notion of “notice” and agency procedural regularity supports using only nonprecedential cases to inform the public that a precedential case that remains on the books will no longer be followed. Continuing to list obsolete decisions, or removing decisions from the “precedential” list without leaving an explanation

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<sup>371</sup> See 35 U.S.C. § 6(a) (“The administrative patent judges shall be persons of competent legal knowledge ... who are appointed by the Secretary, in consultation with the Director.”)

<sup>372</sup> Judge Jay Plager, in unrecorded remarks at the March 2018 Federal Circuit Judicial Conference, recommended Boundy, *Part 1: Rulemaking Primer*, *supra* note 3.

<sup>373</sup> *Good Guidance Bulletin*, *infra* at note 396, at § II(2)(e) (revisions to guidance must identify effect on displaced guidance), § III(1)(b) (agency’s web site must identify significant guidance documents that have been issued, revised, or withdrawn in the past year).

<sup>374</sup> *Mostafazadeh*, *supra* note 189 slip op. at 8-10, 2009 WL 5486107 at \*4-5, *aff’d* 643 F.3d 1353, 98 USPQ2d 1639 (Fed. Cir. 2011).

<sup>375</sup> *Mostafazadeh*, *supra* note 189 slip op. at 8-10, 2009 WL 5486107 at \*4-5, *aff’d* 643 F.3d 1353, 98 USPQ2d 1639 (Fed. Cir. 2011).

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<sup>363</sup> See note 181.

<sup>364</sup> See, e.g., *Campbell*, *supra* note 142.

<sup>365</sup> See §§ III.A and III.C, *supra*.

<sup>366</sup> See § III.A, *supra*.

<sup>367</sup> See § III.A, *supra*.

<sup>368</sup> See § III.A, *supra*.

<sup>369</sup> See e.g., cases cited in footnote 6

<sup>370</sup> See §§ III.C and III.D *supra*, and note 17.

behind and clearly annotating the date of status change, places upon the public the burden of figuring out what happened, which can be *extraordinarily* time consuming. This, in turn, violates the Paperwork Reduction Act and the PTO's implementing guidance under the Information Quality Act<sup>376</sup>—the PTO should clearly inform the public of the disposition of each opinion that is obsoleted, overruled, or redesignated.<sup>377</sup> The word “archived” carries the connotation of “preserved;” it does not carry the connotation of “obsolete.”<sup>378</sup> Likewise, simply calling an opinion “archived” is not a sufficient flag that the decision is no longer good law.<sup>379</sup> For example, *Conopco*, was “informative” when *General Plastics* relied on it in September 2017,<sup>380</sup> and was “informative” when I began work on this article in spring 2018, but “archived” by final editing in September 2018.<sup>381</sup> Why did it change? Is it still good law, overruled, or simply pruned because the list of factors in *General Plastics* subsumes anything *Conopco* would have to say? How would a lawyer know? The Information Quality Act and its implementing guidelines require agencies to go beyond avoiding misleading the public, but to go further, and speak “objectively,” “transparently,” and “reproducibly,”<sup>382</sup> especially when addressing something as important as changing their rules.<sup>383</sup> Appropriate designations include “overruled,” “abrogated,” or “withdrawn,” or some other word that connotes “no longer in effect,” and the *Good*

*Guidance Bulletin* requires that the agency inform the public of the date of the change.<sup>384</sup>

In April and May 2018, the PTAB reorganized its web pages of precedential and informative decisions.<sup>385</sup> After two decades of non-compliance with § 552, opinions are finally indexed. The PTAB should recognize that any brief filed before April 1, 2018 is entitled to rely on § 552 vis-à-vis opinions that were not indexed before that date. However, even with the reorganization, the precedential/ informative page does not consistently note the date on which a given decision was designated.

### V.C.3. Publication

The PTAB should consider resuming publication of precedential, informative, and representative opinions in some form more formal, and certainly more lawyer-friendly, than the current web site—which doesn't allow even the minimal ability to cite by URL. Section 552 of the APA and the Attorney General's Manual urge agencies to make their decisions in a form “most useful to the public.”<sup>386</sup> The Paperwork Reduction Act urges that agencies work within “existing . . . recordkeeping practices.”<sup>387</sup> When decisions are only citable by case-and-paper number, like PTAB trial decisions, coverage by citation services runs between spotty and nonexistent. In personal communications, several PTAB litigators tell me there's no ready citation resource to know the current state of the PTAB's law; all three rely on personal knowledge. If the PTO had *intended* to make its decisions technically available but as obscure and inaccessible as possible, it's hard to know what more the PTO could have done. PTABE2E offers the same level of indexing as the thesis shoebox that does *not* qualify as “printed publication” prior art.<sup>388</sup>

The PTO could improve transparency and promote the development of the law by creating a “2018 PTAB 12345” cite form for all PTAB decisions (final and

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<sup>376</sup> See note 181.

<sup>377</sup> In addition, for some period of time, the PTO included a note that *Tanaka* (see § IV.E and notes 246 and 246) had been overruled and removed from the list of precedential opinions.

<sup>378</sup> See WEBSTER'S THIRD NEW INTERNATIONAL DICTIONARY, archive, def. 2, “public or institutional records, historic documents, and other materials that have been preserved.”

<sup>379</sup> See note 181 and 373.

<sup>380</sup> *Conopco*, *supra* at note 332; *General Plastic*, *supra* note 326, at 9 n.12.

<sup>381</sup> [../precedential-informative-decisions](#) *supra* note 136 (retrieved Sept. 21, 2018).

<sup>382</sup> See note 181.

<sup>383</sup> See note 181.

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<sup>384</sup> *Good Guidance Bulletin*, *infra* at note 396, at § III(1)(b).

<sup>385</sup> [../precedential-informative-decision](#), note 172, *supra*.

<sup>386</sup> ATTORNEY GENERAL'S MANUAL, note 33 *supra* at 17.

<sup>387</sup> 44 U.S.C. § 3506(c)(3)(E).

<sup>388</sup> *In re Cronyn*, 890 F.2d 1158, 1160, 13 USPQ2d 1070, \_\_\_ (1989).

interlocutory, *ex parte* appeal and trial, etc.) that translates readily to a URL for the decision.

Even better would be to resume USPQ publication of precedential and informative opinions. USPQ publication is an important flag to the patent bar that a decision deserves attention. USPQ publication provides a stable cite form. Most importantly, the citation services (Shepard's and Keycite) both cover the USPQ.

Under the current publication regime, there's no non-anemic search of PTAB's decisions without a Westlaw, Lexis, or Bloomberg subscription, running in the neighborhood of \$400/mo. When PTAB *ex parte* decisions were first published on the web, they were Google searchable. But the PTO blocked Google access in 2007. The PTO's web site provides a rudimentary keyword search for *ex parte* decisions—but it is extraordinarily anemic and slow. For the highest-value decisions, PTAB trial decisions, the decisions are in the “dark web” with *no URL*, and the PTO provides *no search at all*.

The PTAB's current treatment of its decisions is difficult to reconcile with § 552 (see §§ II.B.2 and II.B.3) and the Information Quality Act. The costs created by the PTO's hidden ball tricks are difficult to reconcile with the Paperwork Reduction Act.

#### V.C.4. Burdens of proof

The Federal Circuit has repeatedly reminded the PTAB of two propositions:<sup>389</sup> first, the PTAB has no general substantive rulemaking authority, and second, in *ex parte* appeals, the PTAB must apply a “preponderance of evidence” standard that puts the burden of proof on the examiner with no burden on the applicant to “persuade” the PTAB of error. And yet the PTAB continues in the opposite direction.

#### V.C.5. “Suspicious procedures”

Courts have suggested that the Patent Office “may be well-advised to examine its patent issuance process so that their normal operations are not compromised by such seemingly suspicious procedures.”<sup>390</sup> As this Article enumerates, the PTAB may require further guidance from courts to implement that admonition. Two Supreme Court decisions from 50 years ago suggest language that might appear in a future Federal

Circuit decision. In a case reviewing an agency in which employees were well aware of their quotas but less cognizant of legal procedure, the Supreme Court decried “free-wheeling agencies meting out their brand of justice in a vindictive manner,” “conduct ... that is basically lawless,” and deprivation of rights “in such a blatantly lawless manner.”<sup>391</sup> Likewise, Judge Posner, in a series of decisions reviewing a series of agency missteps, questioned “adjudicative competence” and identified areas for improvement in agency adjudication.<sup>392</sup> Judge Posner also reminds agencies that they are never too busy to do a good job.<sup>393</sup> The PTAB may wish to implement reforms to avoid those criticisms.

#### V.C.6. Further revisions to SOP2

In September 2018, the PTO heavily revised SOP2, publishing new SOP2 Revision 10.<sup>394</sup> Unfortunately, this revision failed to address the various problems with SOP2 that had been identified by the Federal Circuit in *Aqua Products*,<sup>395</sup> and that are elaborated in this Article. The problems with SOP2 can't all be fixed by a Revision 11 (after all, it's not a statute or regulation), but a rewrite could bring SOP2 into conformance with the APA, and the remaining problems should be fixed by de-designating or down-designating a number of opinions as noted in this Article.

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<sup>391</sup> *Oestereich v. Selective Service System Local Bd. No. 11*, 393 U.S. 233, 237 (1968); see also *Gutknecht v. U.S.*, 396 U.S. 295, 304 (1970); quoted in *Marozsan v. U.S.*, 852 F.2d 1469 (7th Cir. 1988).

<sup>392</sup> *Benslimane v. Gonzalez*, 430 F.3d 828, 829–30 (7th Cir. 2005); *Mengistu v. Ashcroft*, 355 F.3d 1044, 1047 (7th Cir. 2004) (Posner, J.); *Niam v. Ashcroft*, 354 F.3d 652, 654 (7th Cir. 2004) (Posner, J.); *Galina v. Immigration and Naturalization Svc.*, 213 F.3d 955, 958 (7th Cir. 2000) (Posner, J.) (“The elementary principles of administrative law, the rules of logic, and common sense seem to have eluded the Board in this as in other cases. We are being blunt, but Holmes once remarked the paradox that it often takes a blunt instrument to penetrate a thick hide.”).

<sup>393</sup> *Guchshenkov v. Ashcroft*, 366 F.3d 554, 557–58, 560 (7th Cir. 2004) (Posner, J.).

<sup>394</sup> SOP2 Rev. 10, *supra* note 154.

<sup>395</sup> See discussion of *Aqua Products* noted in notes 5, 80, 314, 315, 351, 352, 355, and accompanying text.

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<sup>389</sup> See cases cited in notes 8, 221, and 270.

<sup>390</sup> Among several, *Blacklight Power, Inc. v. Dickinson*, 109 F.Supp.2d 44 (D.D.C. 2000).

#### V.D. Implementation of the *Good Guidance Bulletin*

The PTO should implement the President's *Bulletin for Good Guidance Practices*<sup>396</sup> for all operations, including the PTAB. The *Good Guidance Bulletin* offers suggestions that would be helpful to the PTAB in four areas: (1) rewriting Standard Operating Procedure 2 to accurately state the scope of the Board's authority; (2) reminding PTAB members of obligations to honor the PTAB's rules for its own proceedings—non-precedential opinions should not be treated as precedent; (3) updating the *Trial Practice Guide*; and (4) incorporating more directives to channel examiner discretion into the MPEP.

In the first version of SOP2 to mention “informative” decisions, one purpose for issuing informative decisions was to “illustrate norms of Board decision-making for . . . the patent examining corps.”<sup>397</sup> But the PTAB has no jurisdiction to supervise examiners.<sup>398</sup> The PTO has a sound alternative that is both grounded in law and recognizes the PTO's internal lines of authority: if the PTO believes examiners would benefit from an explanation of the law, or that the PTO has good ground for instructing examiners in an interpretation of Federal Circuit law adverse to applicants,<sup>399</sup> then the duty to “manage and direct,” under 35 U.S.C. § 3(b)(2)(A), requires that it be added to the MPEP or similar guidance, using required procedural safeguards. Then the agency is to publish its proposed amendments to the MPEP, request comment, and produce a “robust

response to comments.”<sup>400</sup> This way, examiners get sound guidance, well-supported by case law and vetted by the public, that explains to both examiners and the public precisely what law is to be applied, within what scope, and under what limits. However, if a proposed rule of substantive patent law lacks sufficient support for inclusion in the MPEP, then it's hard to see how it acquires better footing by being stated in a PTAB “precedential” or “informative” decision.

The PTAB's practice on the opposite side of the issue is also anomalous. Some errors in examination practice are repeated and mature into many legally-erroneous rejections, which in turn, create costs for the public and costs for the agency.<sup>401</sup> The Information Quality Act, Paperwork Reduction Act, Executive Order 12,866, the Patent Act (35 U.S.C. §§ 2(b)(2)(F) and 3(a)(2)(A)), the *Bulletin* (as implementing guidance for several of these laws), and other laws urge or require that corrective guidance be issued to examiners to “channel discretion” and reduce these error streams.<sup>402</sup> The PTAB could be a major participant in improving predictability and efficiency for the PTO and the public: among all the eyes in the PTO, the PTAB has the best vantage point to assess examiner errors that lead to the greatest number of high-cost prosecutions. If the PTAB notices that examiners have recurring misunderstandings about a point, or that examination procedure could be improved, the PTAB can and should recommend an amendment for incorporation into the MPEP. However, PTAB APJs have a potential conflict of interest: the PTAB's production-compensation system provides some financial

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<sup>396</sup> Office of Management and Budget, *Final Bulletin for Good Guidance Practices*, 72 Fed. Reg. 3432-40 (Jan. 25, 2007).

<sup>397</sup> SOP2, Rev.7 § VII (Mar. 23, 2008); *Good Guidance Bulletin*, *supra* note 396 (“Guidance documents, used properly, can channel the discretion of agency employees, increase efficiency, and enhance fairness by providing the public clear notice of the line between permissible and impermissible conduct while ensuring equal treatment of similarly situated parties.”).

<sup>398</sup> *Contrast* 5 U.S.C. § 3(b)(2)(a) (duty to “manage and direct” rests on Commissioners) with § 6 (no such jurisdiction for the Board); *Ex parte Gambogi*, 62 USPQ2d 1209, 1212 (BPAI 2001) (“We decline to tell an examiner precisely how to set out a rejection”).

<sup>399</sup> For example, an issue like *McAward*, see § IV.I, *supra*, or “nonfunctional descriptive material,” see § IV.F, *supra*.

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<sup>400</sup> *Good Guidance Bulletin*, *supra* note 396, Introduction, 72 Fed. Appx. at 3438, § IV(1)(c) and (d) (for revisions to economically-significant guidance, agency must invite public comment and publish a response to comments).

<sup>401</sup> IEEE-USA, letter of May 29, 2012, to Susan K. Fawcett, Records Officer, comments on paperwork clearance for Patent Processing (Updating), [https://www.uspto.gov/sites/default/files/news/fedreg/comments/0651-0031\\_IEEE\\_Comment.pdf](https://www.uspto.gov/sites/default/files/news/fedreg/comments/0651-0031_IEEE_Comment.pdf) at page 18 and 21-24 (observing that patent prosecution is about 12 million attorney hours per year, approximately \$4 billion per year, and a substantial fraction of that is due to unpredictable PTO processes).

<sup>402</sup> *Good Guidance Bulletin*, *supra* note 396, Introduction at 72 Fed. Reg. at 3432.

incentive *not* to eliminate examiner errors that feed the PTAB's docket, especially with "easy reversal" rejections.<sup>403</sup> It is not known whether this is a significant underlying cause for the low number of PTAB precedential opinions on issues that could reduce commonly-recurring examiner errors.

The *Good Guidance Bulletin* instructs that changes to economically-significant agency guidance must be run through notice and comment.<sup>404</sup> The PTO may wish to consider whether some public vetting is appropriate before decisions are designated "precedential" or "informative," and for some amendments to the Standard Operating Procedures.

The Office of Patent Examination Procedure and editors of the MPEP should review the MPEP for reliance on PTAB decisions. There's a noticeable correlation between the direction of PTAB decisions (in favor or the applicant vs. against) and the likelihood that the decision is incorporated into the MPEP.<sup>405</sup> This raises a number of questions: Why are applicant-favorable decisions like *Bhide* and *Eggert* not abstracted into the MPEP? Why are applicant-adverse PTAB decisions like *Nehls* and *Curry* allowed to stymie MPEP-ization of applicant-favorable language from multiple Federal Circuit decisions like *Lowry*—why are *Nehls* and the MPEP silent on "step one" of the Federal Circuit's "printed matter" rule? Why is the applicant-favorable language of *Curry* not incorporated to counterbalance the applicant-adverse language, and omission of applicant-favorable step one language from *Lowry*? Likewise, why are applicant-favorable decisions on the definition of "new ground of rejection" (of both the Federal Circuit and PTAB) not accurately abstracted into the MPEP?<sup>406</sup> Are MPEP-ization decisions made in a

manner consistent with the Paperwork Reduction Act and various benefit-cost directives from the Office of Management and Budget? Current practices raise costs by tens of thousands of dollars for many tens of thousands of applications per year.

In telephone conversations with examiners, it's clear they're aware of applicant-adverse PTAB precedential and non-precedential PTAB decisions, and trained to apply them—and, if asked for authority to support rejections, will provide copies—even though the provided copies often bear headings that they are not to be relied on as precedent, and the decisions are not referenced in the MPEP.<sup>407</sup> In implementing the *Good Guidance Bulletin*, the PTO should develop written guidelines for examiners' reliance on PTAB decisions, to help examiners fully comply with all applicable laws, and understand the difference between agency pronouncements that *do* bind the public and those that *do not*.

Implementation of the *Good Guidance Bulletin* would bring sunlight to many areas of the PTO that need disinfectant. Several petitions have requested that the PTO implement this *Bulletin*; senior PTO officials signed decisions refusing to do so.<sup>408</sup>

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<https://www.uspto.gov/sites/default/files/patents/law/comments/al-a-ieeeusa20140731.pdf> (July 31, 2014); IEEE-USA comments on paperwork ICR 0651-0032, [http://www.uspto.gov/news/fedreg/comments/0651-0031\\_IEEE\\_Comment.pdf](http://www.uspto.gov/news/fedreg/comments/0651-0031_IEEE_Comment.pdf) at pages 34-40 and 52-57 (May 29, 2012); letter of Kipman T. Working and Jonathan R. Lee on appeal rules, formerly at [http://www.uspto.gov/ip/boards/bpai/procedures/rules/rule\\_comment\\_nov2010\\_working\\_lee\\_a.pdf](http://www.uspto.gov/ip/boards/bpai/procedures/rules/rule_comment_nov2010_working_lee_a.pdf) (Jan. 14, 2011) (letter now removed from the PTO's web site); letter of David Boundy, formerly at [http://www.uspto.gov/ip/boards/bpai/procedures/rules/rule\\_comment\\_nov2010\\_boundy.pdf](http://www.uspto.gov/ip/boards/bpai/procedures/rules/rule_comment_nov2010_boundy.pdf) (Jan. 14, 2011) (now removed from PTO's web site).

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<sup>403</sup> The PTAB's compensation system was discussed on the Patently-O blog, <https://patentlyo.com/jobs/2009/05/bpai-shuts-down-dissent-in-favor-of-efficiency.html> (May 21, 2009).

<sup>404</sup> *Good Guidance Bulletin*, note 396 *supra*, § IV(1)(c) and (d).

<sup>405</sup> See § III.B.

<sup>406</sup> Errors in the current MPEP discussion of "new ground" have been brought to the PTO's attention on multiple occasions. See, e.g., letter of IEEE-USA on 2015 § 101 guidance, [https://www.uspto.gov/sites/default/files/documents/2015ig\\_a\\_ieee\\_02nov2015.pdf](https://www.uspto.gov/sites/default/files/documents/2015ig_a_ieee_02nov2015.pdf) at pages 23-24 (Oct 30, 2015); letter of IEEE-USA on 2014 § 101 guidance,

<sup>407</sup> E.g., Application 09/611,548, Office Action Appendix (Mar. 10, 2017). (in response to a request from applicant to examiner for authority supporting a legal position, examiner provides two Board decisions, each bearing the legend "The opinion in support of the decision being entered to day was not written for publication and is not binding precedent of the Board.") Yet the examiner relies on them.

<sup>408</sup> E.g., Application 10/113,841, Decision on Petition at 19-20 (Jul. 14, 2011).

In fact, the PTO has regressed. The *Bulletin* requires agencies to make clear which guidance is in effect, and

## **VI. Conclusion**

Administrative law expertise is becoming more important to successful representation of clients in intellectual property matters. The PTAB and Federal Circuit can only address legal issues properly raised by the parties. Expertise in administrative law and agency rulemaking can guide agency tribunals to favorable decisions, and present compelling arguments to courts after unfavorable decisions.

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what has expired, been withdrawn, etc. For years, the MPEP Foreword stated that “Orders and Notices ... which have been omitted or not incorporated in the text may be considered obsolete.” This sentence was removed from the MPEP Ninth Edition in March 2014. Now the status of old guidance is—what?

# A Cautionary Note to the PTAB: *Proppant*, Joinder, and PTAB’s Rulemaking-by-Adjudication—How to Avoid Brazen Defiance of the APA and a Rerun of *Aqua Products*

by David E. Boundy<sup>1</sup>  
revised December 19, 2018

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As President Reagan used to say, “There they go again.” Only fourteen months ago, in *Aqua Products, Inc. v. Matal*,<sup>2</sup> the Federal Circuit set aside an attempt by the Patent Trial and Appeal Board (PTAB) to issue a rule, on its own authority, without following statutory rulemaking procedure. Of the nine judges that reached the issue, seven agreed on a simple principle: “[t]he Patent Office cannot effect an end-run around [the APA] by conducting rulemaking through adjudication.”<sup>3</sup> It would be hoped that

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<sup>2</sup> *Aqua Products, Inc. v. Matal*, 872 F.3d 1290, 124 USPQ2d 1257 (Fed. Cir. 2017).

<sup>3</sup> *Aqua Products*, note 2 *supra*, 872 F.3d at 1339, 124 USPQ2d at 1287 (Reyna, J. concurring, for the swing votes).

after losing a case like this, the PTO would have read the Administrative Procedure Act, *Aqua Products*, and the relevant Supreme Court authority, and would have retuned its behavior to avoid future square confrontations with the Court.

Instead, last week, the PTAB issued an order that seems to be setting up identical facts for a rematch on the Federal Circuit's *Aqua* decision. This notice of rulemaking was posted as a “nothing special” decision on the PTAB's obscure, non-searchable, non-indexed PTABE2E system, and that's it. Strikingly, the PTAB and PTO gave the public no notice of its proposed rulemaking—no notice in the Federal Register (as required by statute), no notice via email to the PTAB's email list, no mention on the PTAB's “precedential and informative decisions” page, no mention on the “Patent Trial and Appeal Board Alerts” widget on the MyUSPTO web page, no *nuthin*'. As far as I can tell, the only rent in the cloak of silence in which the PTAB wrapped its attempt at submarine rulemaking is that Dennis Crouch received a “random email from a non PTO professional,” and Dennis ran an article on his Patently-O blog.<sup>4</sup> And it certainly appears to be a rather brazen end run around the APA, by conducting rulemaking through adjudication.

The PTAB's second trip down the *Aqua* path started with a December 3 order in *Proppant Express Investments, LLC v. Oren Technologies, LLC*, from the PTO's newly-created Precedential Opinions Panel (POP).<sup>5</sup> *Proppant* orders briefing on the following questions, relating to joinder of new issues and new parties into a PTAB IPR trial proceeding:

1. Under 35 U.S.C. § 315(c) may a petitioner be joined to a proceeding in which it is already a party?
2. Does 35 U.S.C. § 315(c) permit joinder of new issues into an existing proceeding?
3. Does the existence of a time bar under 35 U.S.C. § 315(b), or any other relevant facts, have any impact on the first two questions?<sup>6</sup>

Assuming that the PTAB intends to use this round of briefing the way an Article III court would—to formulate a new rule to be issued as a future precedential opinion—how is this exercise in PTAB rulemaking-by-adjudication different than the rule set aside

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<sup>4</sup> Email of December 9, on file with the author; Dennis Crouch, *POP! – Precedential Opinion Panel takes on Late-Joinder Attempt*, Patently-O, <https://patentlyo.com/patent/2018/12/precedential-opinion-joinder.html> (Dec. 6, 2018).

<sup>5</sup> *Proppant Express Investments, LLC v. Oren Technologies, LLC*, IPR2018-00914, paper no. 24 (PTAB Dec. 3, 2018), see [Patently-O article](#).

<sup>6</sup> It's puzzling that this question only mentions § 315(b), but not § 316(a)(12).

in *Aqua Products*? We can't answer that question yet, because so far, all we have is the PTAB's request for briefing, no "real" decision.

However, the law of rulemaking procedure has changed only a little in recent decades, and we can say something about that. Under the law that governs agency rulemaking, there are some things the PTAB *can* do in rulemaking, and many things it *can't*. Unfortunately, the *Proppant* order indicates that the PTAB is steering into the latter, and is setting up *exactly* the same facts that were losers for the PTAB in *Aqua Products*. This article provides some boundaries, with my hopes that the PTAB will adopt some suggestions in order to stay within its authority.

I've written three earlier articles on general principles of rulemaking, under the general title "The PTAB is Not an Article III Court," explaining that, with very narrow exceptions, the PTAB may not engage in rulemaking by precedential decision:

- David Boundy, *The PTAB is Not an Article III Court, Part 1: A Primer on Federal Agency Rule Making*<sup>7</sup> gives an overview of the law of rulemaking, including a taxonomy of various terms like "substantive," "procedural," "interpretative," and "legislative."<sup>8</sup> At the March 2018 Federal Circuit Judicial Conference, Judge Plager recommended this article to the entire patent bar.<sup>9</sup>
- David Boundy and Andrew B. Freistein, *The PTAB Is Not an Article III Court, Part 2: Aqua Products v. Matal as a Case Study in Administrative Law*.<sup>10</sup> As the title suggests, this article takes an in-depth look at the failures of rulemaking law that underlay the rule at issue in *Aqua. Proppant* seems to be headed down

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<sup>7</sup> David Boundy, *The PTAB is Not an Article III Court, Part 1: A Primer on Federal Agency Rule Making*, ABA LANDSLIDE 10:2, pp. 9-13, 51-57 (Nov-Dec. 2017), at [here](#) or [here](#).

<sup>8</sup> The recent "ordinary meaning" claim construction rule suggests that the PTAB may be deeply confused on the basics of APA rulemaking. Patent and Trademark Office, *Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board*, Final Rule, 83 Fed. Reg. 51340, 51357 col. 2 (Oct. 11, 2018). As only one example among many, the PTAB claims that its claim construction rule is "procedural" because it "will not change the substantive criteria of patentability"—and then explains the facially absurd by advancing a non sequitur from an entirely different principle of law.

<sup>9</sup> Stephen Kunin, the former Deputy Commissioner for Patent Examination Policy, also recommended that patent attorneys read my articles "in detail." <https://www.linkedin.com/feed/update/urn:li:activity:6475888184550055936>

<sup>10</sup> David Boundy and Andrew B. Freistein, *The PTAB Is Not an Article III Court, Part 2: Aqua Products v. Matal as a Case Study in Administrative Law*, ABA LANDSLIDE 10:5, pp. 44-51, 64 (May-Jun. 2018), available [here](#).

almost exactly the same path as in *Aqua*, so this article might help the PTAB avoid a similar outcome.

- David Boundy, *The PTAB is Not an Article III Court, Part 3: Precedential and Informative Decisions*,<sup>11</sup> explains (in gross-overkill detail) *exactly* what the PTAB can do and can't by precedential or informative decision, and gives some examples of proper and improper "precedential" and "informative" designations.

In addition, agency precedential decisions are not "regulations," and are thus governed by the same law that governs any other guidance. I wrote an article on that only last week:

- David E. Boundy, *Agency Bad Guidance Practices at the Patent and Trademark Office: a Billion Dollar Problem*, 2018 Patently-O Patent Law Journal 20 (Dec. 4, 2018, revised Dec. 6, 2018) available [here](#)

Today's article is a condensation and application of general principles of rulemaking (as laid out in those earlier articles), and the case law they discuss, to the specific setting of *Proppant*.

## I. The key facts and laws

The following laws govern rulemaking by the PTAB's "Precedential Opinions Panel:"

0. The Administrative Procedure Act puts "adjudication" and "rulemaking" on opposite sides of a "dichotomy."<sup>12</sup>
1. The Director has substantive rulemaking authority in this area—not only authority, but a *duty* to promulgate *regulations*.<sup>13</sup>
2. The PTAB doesn't. The PTAB only adjudicates. Any rulemaking authority the PTO has lies with the Director.<sup>14</sup> The Director is not the PTAB. The PTAB, even

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<sup>11</sup> David Boundy, *The PTAB is Not an Article III Court, Part 3: Precedential and Informative Decisions*, forthcoming in AIPLA Quarterly Journal, available [here](#),

<sup>12</sup> *E.g.*, U.S. Dept. of Justice, ATTORNEY GENERAL'S MANUAL ON THE ADMINISTRATIVE PROCEDURE ACT (1947) at 14 ("the entire Act is based upon a dichotomy between rule making and adjudication.") 5 U.S.C. § 553 governs rulemaking, and §§ 554 and 555 govern adjudications.

<sup>13</sup> 35 U.S.C. § 316(a)(2) ("The Director *shall* prescribe *regulations*— (2) setting forth the standards for the showing of sufficient grounds to institute a review...") and § 316(a)(12) ("(12) setting a time period for requesting joinder under section 315(c)").

<sup>14</sup> 35 U.S.C. § 316(a).

- with the Director on the panel, is not the Director.<sup>15</sup> A given panel can call itself a “panel,” “expanded panel,” “Precedential Opinion Panel,” or a title worthy of a 19th century monarch, “Imperial and Royal Majesty, By the Grace of God, Emperor of Dulaney Street, King of 26 South 4th St, San Jose, Protector of 300 River Place South, Detroit, and Defender of the Faith.” Capitalized terms, Standard Operating Procedures, Directors, Commissioners, Deputies, gold shoulder epaulets, or long powdered wigs aren’t mentioned in the statute, and make no more difference here than they did in *Aqua Products*. The Patent Act tells us that all panels of the PTAB are created equal, and all operate under the limits of the Administrative Procedure Act.
3. The Director has near-unlimited discretion to permit or deny joinder in an *adjudication*,<sup>16</sup> and to set time periods by *regulation*.<sup>17</sup> These two statutes are classic examples of open-ended grants of discretion, with “no law to apply,” so there is effectively no judicial review on the substantive merits of a joinder decision or joinder rule.<sup>18</sup> A joinder decision, if accompanied by any rational explanation, may be reviewed only for *procedural* breach or inadequacy.<sup>19</sup>
  4. Any joinder rule to be issued is almost certainly “substantive,” not “procedural,” but it really doesn’t matter, since (I believe) the requirements for notice-and-comment “regulation” end up essentially the same either way.<sup>20</sup>
    - Though I haven’t spent quality time on Westlaw researching this, and it’s impossible to evaluate a rule that hasn’t been proposed, a joinder rule seems

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<sup>15</sup> *In re Alappat*, 33 F.3d 1526, 1535, 31 USPQ2d 1545, 1550 (Fed. Cir. 1994) (“although the [Director] may sit on the Board, in that capacity he serves as any other member. ... In other words, the [Director] has but one vote on any panel on which he sits, and he may not control the way any individual member of a Board panel votes on a particular matter.”), quoting *Animal Legal Defense Fund v. Quigg*, 932 F.2d 920, 928-29, 18 USPQ2d 1677, 1684 (Fed. Cir. 1991).

<sup>16</sup> 35 U.S.C. § 315(c).

<sup>17</sup> 35 U.S.C. § 316(a)(12).

<sup>18</sup> *Citizens to Preserve Overton Park, Inc. v. Volpe*, 401 U.S. 402 (1971) (“The legislative history of the Administrative Procedure Act indicates that [the ‘committed to agency discretion’ exception to judicial review] is applicable in those rare instances where ‘statutes are drawn in such broad terms that in a given case there is no law to apply.’”).

<sup>19</sup> *Bowen v. Michigan Academy of Family Physicians*, 476 U.S. 667, 672 n.3 (1986) (“[O]nly in the rare—some say non-existent—case ... may review for ‘abuse’ be precluded.”).

<sup>20</sup> The difference between the word “rule” and “regulation” is explored in Boundy, *Part 3*, note 11 *supra*, at § II(B)(1) pp. 4-7, and last week’s article, David A. Boundy, *Agency Bad Guidance Practices at the Patent and Trademark Office: a Billion Dollar Problem*, 2018 *Patently-O Patent Law Journal* 20 (Dec. 4, 2018), [here](#).

almost certain to be “substantive” for § 553 rulemaking purposes. The modern tests for “substantive” vs. “procedural” are whether the rule “encodes a substantive value judgment or puts a stamp of approval or disapproval on a given type of behavior,” or “change[s] the substantive standards by which the [agency] evaluates” issues.<sup>21</sup> Presumably, the PTAB wants to reconcile its conflicting precedent by finding some nuanced, balanced set of substantive standards for allowing joinder, and that is more likely to make it “substantive.”

- Even if a joinder rule were “procedural,” the statute still requires the Director to act by notice-and-comment “regulation,” not by “rule” or some other lower-procedure mechanism.<sup>22</sup>

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<sup>21</sup> The courts have repeatedly declared that the § 553 exemptions from notice-and-comment rulemaking are to be narrowly construed and reluctantly recognized, so as not to defeat the salutary purposes behind the notice-and-comment provisions of § 553. *United States v. Picciotto*, 875 F.2d 345, 347 (D.C. Cir. 1989) (*Picciotto* is also directly instructive on the validity of Standard Operating Procedure 2); *Batterton v. Marshall*, 648 F.2d 694, 701 n.25 (D.C. Cir. 1980).

Joinder seems to be highly analogous to substitution of one station for another in an FCC license approval proceeding, which is “substantive.” *Reeder v. FCC*, 865 F.2d 1298, 1304-05 (D.C. Cir. 1989).

A rule that goes to the heart of the interest protected by a statute may be substantive, even if the statute and rule themselves appear procedural. *Natural Ass’n of Waterfront Employees v. Chao*, 587 F.Supp.2d 90, 100-101 (D.D.C. 2008) (a rule governing public access to files for Longshore Act and Black Lung Act claims, which appears “procedural” on its face, may nonetheless be “substantive” because the rule governing information access, as an implementing regulation of a statute governing information access, may be substantive in the context of that specific statute). Because § 316(a)(12) obligates the Director to promulgate *regulations* “setting a time period for requesting joinder under section 315(c),” it seems more likely than not that an implementing rule would necessarily be “substantive” for § 553 purposes.

Joinder also seems analogous to statutes of limitations, which are “substantive” for *Erie v. Tompkins* purposes, under the reasoning of [\*Guaranty Trust Co. v. York\*, 326 U.S. 99, 110-11 \(1945\)](#).

<sup>22</sup> 35 U.S.C. §§ 315(c) and 316(a)(12).

Depending on the nature of rule that PTO ends up proposing, it may require a 60-day comment period under 44 U.S.C. § 3506(c)(2)(A). Any final rule order that emerges from *Proppant* is almost certain to be an “economically significant guidance document” (or amendment thereto), that falls within the notice and comment requirements of President’s *Bulletin on Agency Good Guidance Practices*, § IV, <https://georgewbush-whitehouse.archives.gov/omb/memoranda/fy2007/m07-07.pdf> (Jan. 18, 2007), reprinted in 72

*footnote continued...*

5. Likewise, a joinder rule cannot be eligible for the “interpretative” exemption, and will have to be “legislative.” There’s not a word in either statute or regulation relating to the three questions posed in *Proppant*, and thus no ambiguity hook on which to hang an “interpretative” rule. The statute says only that the Director has “discretion.” The regulations, 37 C.F.R. § 42.122(b) and 42.222(b), only set procedural requirements for timing. Without some ambiguity to “interpret,” a rule can’t be “interpretative.”
6. The combination of statutory silence on specific implementation and a grant of rulemaking authority (§ 316(a)(2)) authorizes the PTO to act by “regulation,” and a gap-fill *regulation* could be eligible for *Chevron* deference (subject to other preconditions).<sup>23</sup> But gap-filling a silence requires legislative, notice-and-comment rulemaking. A rule by adjudication may *interpret*,<sup>24</sup> but not gap-fill.
7. The PTO must run a notice in the Federal Register to solicit public comments.<sup>25</sup>

## II. *Proppant* violates the APA by failure to give public notice of proposed rulemaking

*Proppant* is a stealth notice of rulemaking that avoids not only the statutorily-required publication notice venue, the Federal Register, but every other plausible notice channel as well. On Sunday December 9, I searched the Federal Register, including the “public inspection” page for tomorrow, December 10 (a week after the *Proppant* order). Much as we all appreciate Dennis Crouch and his blog, neither is statutory. Publication by fortunate accident in Dennis’ blog is not a substitute for the notice that, by statute, was to be published in the Federal Register.<sup>26</sup>

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Fed. Reg. 3432-40 <https://www.federalregister.gov/documents/2007/01/25/E7-1066/final-bulletin-for-agency-good-guidance-practices> (Jan. 25, 2007).

I gave a shortened explanation for why I believe that the word “regulation” and the PTO’s claim to “mootness” in the *Tafas v. Kappos* case bind the PTO to use notice-and-comment even for procedural rules, in my article *The PTAB is Not an Article III Court, Part 1*, note 7 *supra* at 51-52, and *Part 3*, note 11 *supra*, at § II(B)(2), pages 6-10. There’s a longer explanation in one of my mysteriously-disappeared notice and comment letters discussed in note 58, *infra*.

<sup>23</sup> *Chevron* deference is discussed at § V of this article. Some of those preconditions for *Chevron* and *Auer* deference are discussed in Boundy, *The PTAB is Not an Article III Court, Part 1*, note 7 *supra*, at 52-53. I have a work-in-progress article that expands on this list of preconditions, and would likely send it to you if you ask nicely.

<sup>24</sup> *NLRB v. Bell Aerospace Co.*, 415 U.S. 267, 294 (1974).

<sup>25</sup> 5 U.S.C. § 553(b) and (c).

<sup>26</sup> 5 U.S.C. § 552(a).

Not only that, but *Proppant* gives the public only 25 days to comment. The APA does not set a minimum comment period, but 30 days is usually a minimum.<sup>27</sup> Executive Order 12,866 suggests that 60 days should be the norm.<sup>28</sup>

Anyone with any experience with the notice-and-comment process within ABA, AIPLA, or IPO knows that the process of assembling a subcommittee, finding a knowledgeable volunteer who has a lull in his/her case load and can crank out a first draft, gathering comments and markup from the subcommittee, and getting multiple levels of organizational approval takes well more than 25 days. These organizations are further delayed if the agency gave no notice so there will be a late start, and Christmas is an intervening event.

### **III. A near-perfect analogy from the Supreme Court: *NLRB v. Wyman-Gordon***

The action apparently contemplated by *Proppant* is almost on all fours with *NLRB v. Wyman-Gordon Co.*,<sup>29</sup> decided by the Supreme Court in 1969. The National Labor Relations Board had a rule, promulgated by precedential decision, that required employers to provide employee lists to unions. As in *Proppant*, this rule had no grounding in statute or regulation (both were silent, neither forbidding nor permitting such a list)—the rule presented no *conflict*, it was merely *beyond* the words of statute or regulation. As in *Aqua Products* and *Proppant*, the NLRB promulgated the rule by precedential decision, as if the NLRB were an Article III common law court.<sup>30</sup>

When NLRB's "employee list" rule was challenged, the NLRB pointed to its broad grant of rulemaking authority, and argued that the NLRB's rule-by-adjudication was within that authority.<sup>31</sup> But the NLRB was unable to demonstrate *exercise* of that rulemaking authority via proper procedure.<sup>32</sup>

The Supreme Court invalidated the agency's rule, and reminded the NLRB of the rulemaking requirements of the APA, as follows:

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<sup>27</sup> See notes 22 and 25 *supra*.

<sup>28</sup> Executive Order 12,866, § 6(a)(1).

<sup>29</sup> [\*NLRB v. Wyman-Gordon Co.\*](#), 394 U.S. 759 (1969).

<sup>30</sup> *Wyman-Gordon*, 394 U.S. at 761-62.

<sup>31</sup> *Wyman-Gordon*, 394 U.S. at 765.

<sup>32</sup> *Wyman-Gordon*, 394 U.S. at 765.

The Board asks us to hold that it has discretion to promulgate new rules in adjudicatory proceedings, without complying with the requirements of the Administrative Procedure Act.

The rule-making provisions of [the APA], which the Board would avoid, were designed to assure fairness and mature consideration of rules of general application. They may not be avoided by the process of making rules in the course of adjudicatory proceedings. There is no warrant in law for the Board to replace the statutory scheme with a rule-making procedure of its own invention . . .

[T]he Board purported to make a rule: *i.e.*, to exercise its quasi-legislative power . . . Adjudicated cases may and do, of course, serve as vehicles for the formulation of agency policies, which are applied and announced therein . . . They generally provide a guide to action that the agency may be expected to take in future cases. Subject to the qualified role of *stare decisis* in the administrative process, they may serve as precedents. But this is far from saying, as the Solicitor General suggests, that commands, decisions, or policies announced in adjudication are “rules” in the sense that they must, without more, be obeyed by the affected public.<sup>33</sup>

There’s one major difference between *Wyman-Gordon* and *Proppant*: the NLRB is an integrated agency head, with *both* adjudication powers and rulemaking powers. That gives the NLRB power to conduct rulemaking-by-adjudication in a way that’s simply not available to the PTAB.<sup>34</sup>

Likewise, *Aqua Products* is essentially on all fours with where the PTAB seems to be headed: in *Aqua*, the Federal Circuit set aside a PTAB rule when that rule was substantive (and thus not eligible for the “procedural” exemption from notice-and-comment of 5 U.S.C. § 553(b)(A)), not supported by underlying text (and thus not eligible for the “interpretative” exemption of § 553(b)(A)), issued under a statute that

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<sup>33</sup> *Wyman-Gordon*, 394 U.S. at 764-66.

<sup>34</sup> The difference between unified-head agencies vs. split-adjudication-vs-rulemaking agencies is explained in *Martin v. Occupational Safety & Health Review Comm’n*, 499 U.S. 144, 151, 154 (1991) (“[W]e concluded that agency adjudication is a generally permissible mode of law-making and policymaking only because the unitary agencies in question also had been delegated the power to make law and policy through rulemaking.”); *NLRB v. Bell Aerospace Co.*, 415 U.S. 267, 294 (1974).

requires “regulation,” and promulgated as a PTAB precedential decision<sup>35</sup> without notice and comment. *Proppant* seems on track to set up the same facts.

Can agency tribunals promulgate rules by formal adjudication? Some can, in the areas where the tribunal has rulemaking authority, and its procedures happen to overlap with and be sufficient to meet the rulemaking procedures of the APA.<sup>36</sup> The PTAB is not one of those tribunals, at least not on this issue. The power of an agency to promulgate rules via adjudication is subject to the following “only if’s,” which are fully explained in my *Part 3* article on the PTAB’s precedential and informative decisions:<sup>37</sup>

- *Only if* the agency as a whole has relevant rulemaking authority under its organic statute. True as to the Director, false as to the PTAB.
- *Only where* the agency’s rulemaking delegation permits the agency to act by “rule” or “procedure,” without requiring “regulation” or “in accordance with 5 U.S.C. § 553.” Except to interpret ambiguity, an agency cannot act by common law where the statute requires “by regulation.” False here.
- *Only to the extent* that:
  - A statute unifies rulemaking authority and adjudicatory authority in a single agency head (*e.g.*, the NLRB, Interstate Commerce Commission, and Federal Trade Commission, which have unified authority, but not the PTO).<sup>38</sup> False here. *and/or*
  - That agency adjudication is a “formal adjudication” under the APA, 5 U.S.C. § 554. Though I know of no example case, I imagine that this

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<sup>35</sup> *MasterImage 3D, Inc. v. RealD Inc.*, IPR2015-00040, Paper No. 42, [https://www.uspto.gov/sites/default/files/documents/ipr2015-00040\\_paper\\_47\\_20150715.pdf](https://www.uspto.gov/sites/default/files/documents/ipr2015-00040_paper_47_20150715.pdf) (PTAB July 15, 2015)

<sup>36</sup> *E.g.*, *Bell Aerospace*, note 24 *supra*.

<sup>37</sup> Boundy, *Part 3*, note 11 *supra*, at § II(F), pages 16-17.

<sup>38</sup> See *Martin*, note 34 *supra*. In every case that I know of in which an agency adjudicatory tribunal issued a decision that warranted *Chevron* or *Auer* deference (*e.g.*, those noted in note 50), two things were both true: (a) tribunal at issue has both adjudicatory and rulemaking powers, and (b) the tribunal operates under the “formal adjudication” procedures of §§ 554, 556, and 557. American Bar Ass’n, A GUIDE TO JUDICIAL AND POLITICAL REVIEW OF FEDERAL AGENCIES, John Duffy, ed. § 4.022 at 106, ABA Press 2005 (“*Chevron* deference to interpretations expressed through formal adjudications requires that the interpreting agency have some policymaking power, as opposed to purely adjudicatory powers. If the agency is solely an adjudicator, not contemplated by Congress to set policy through the adjudication process by, for example, resolving interpretive questions in the course of its adjudications, courts are unlikely to extend *Chevron* deference.”).

element could be satisfied by a § 555 informal adjudication, if the agency proceeds with sufficient procedural formality, agency deliberation, and explanation to satisfy a court that the adjudicator’s interpretation reflects “fair and considered judgment” and policy-balancing of the entire *agency* (which almost always requires that the decision be designated “precedential” and involves full review by the agency head). Getting *Proppant* off on the foot of failure of statutory notice falsifies this element.<sup>39</sup>

- I am quite certain that for a *Chevron*-eligible interpretation of statute, these two conditions are joined by “and.”<sup>40</sup> For an *Auer*-eligible interpretation of a regulation, the connector is probably “or” or some balancing test that is weaker than “and.” I know of no case directly on point for either proposition; I’m only inferring from examples.
- *Only if no statute requires otherwise*—that is, only if the rule fits the “interpretative,” “statement of policy,” or “procedural” exemptions of § 553(b)(A) and § 553(d), and no other statute (such as § 2(b)(2)(B) of the Patent Act or § 3506(c)(2)(A) of the Paperwork Reduction Act) requires notice and comment. Though we can’t know for certain until we see a rule in a future order, it seems highly unlikely that a *Proppant* joinder rule can satisfy this element.
  - If an agency relies on the “interpretative” exemption from notice and comment under § 553, the agency may create a rule by adjudication *only as an interpretation* of an “active” ambiguity. Gap-filling of a *regulation* via guidance is ineligible for *Auer* deference. Perhaps, but it seems unlikely, given the questions posed in the *Proppant* call for briefing.
- *Only if the agency explains itself sufficiently to meet the standards of Chenery and State Farm.*<sup>41</sup>

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<sup>39</sup> For example, in *Natural Ass’n of Waterfront Employees v. Chao*, 587 F.Supp.2d 90, 100-101 (D.D.C. 2008), the court struck down a rule promulgated by the agency’s Chief ALJ, even though he had delegated authority from the agency to administer the relevant area, because the Chief ALJ did not have *rulemaking* authority in that area.

<sup>40</sup> See note 38 *supra*.

<sup>41</sup> *SEC v. Chenery Corp.*, 318 U.S. 80, 93–95 (1943) is the classic case holding that agencies may only defend themselves in court based on the explanations they gave when they took the action in the first place, and courts are not supposed to entertain *post hoc* rationalizations that weren’t given at the proper time. “[A]n administrative order cannot be upheld unless the grounds upon which the agency acted in exercising its powers were those upon which its action can be sustained.” See also *Burlington Truck Lines v. United States*, 371 U.S. 156, 168–69 (1962) (an agency decision can only be affirmed “on the same basis articulated in the order by the agency itself”).

*footnote continued...*

- *Only if* the agency publishes the decision with notice as required by § 552. The PTO has not yet done so, and it has a record of failing to observe the notice and publication requirements of § 552.<sup>42</sup> I hope that this is the time that PTO turns a new leaf.

#### IV. What *could* the PTAB do by a decision in *Proppant*?

*Proppant* could have prospective effect by one of two mechanisms.

##### A. General statement of policy—advisory with no binding effect

A *Proppant* rule order could do what many other PTAB “precedential” and “informative” decisions have done: stand as a collected restatement of “non-exclusive, non-binding factors” to be weighed. This kind of “general statement of policy” is exempt from notice-and-comment under § 553(b)(A).

“General statements of policy” have down sides for the agency.

- A “general statement of policy” has no binding effect whatsoever. A “policy statement” leaves both the public and all agency decision-makers with complete, “open mind” discretion to follow or not. The PTAB will be unable to rely on a policy statement to “foreclose consideration by the agency of positions advanced by private parties.”<sup>43</sup> The PTAB will have to give full consideration to any argument a party may raise. Any goal of predictability will not be served by a “general statement of policy.”
- Policy statements are ineligible for *Chevron* or *Auer* deference.

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*Motor Vehicle Mfrs. Ass’n v. State Farm Mutual Auto. Ins. Co.*, 463 U.S. 29, 43, 48, 50 (1983) is the classic case defining “arbitrary and capricious,” and singling out an agency’s failure to explain as a near *per se* ground for setting aside a rule. “[T]he agency must examine the relevant data and articulate a satisfactory explanation for its action including a ‘rational connection between the facts found and the choice made,’” and agency action is “arbitrary and capricious” on essentially a *per se* basis if the agency failed that obligation to explain.

<sup>42</sup> See Boundy, *Part 3*, note 11 *supra*, at § II(B)(2), pp. 8-10.

<sup>43</sup> Office of Management and Budget, Executive Office of the President, *Final Bulletin for Agency Good Guidance Practices*, § III(2)(b), <https://georgewbush-whitehouse.archives.gov/omb/memoranda/fy2007/m07-07.pdf> at 21 (Jan. 18, 2007), reprinted in 72 Fed. Reg. 3432-40, 3440 col. 2 <https://www.federalregister.gov/documents/2007/01/25/E7-1066/final-bulletin-for-agency-good-guidance-practices> (Jan. 25, 2007).

- A future Director can change it as easily as it was adopted.<sup>44</sup>
- All future decisions on joinder will have to set out full reasoning, to satisfy *Chenery* and *State Farm*,<sup>45</sup> as if no *Proppant* decision or rule existed. On judicial review, each such decision will be reviewable for its procedural completeness under *Chenery* and *State Farm*, and the existence of a *Proppant* “policy statement” will be simply irrelevant as support.

***B. Adjudicatory order—each and every order reconsidering and analyzing the issue de novo***

The second is demonstrated in *Wyman-Gordon*. Though the Court set aside the “employee list” rule as a *rule*, it affirmed that the NLRB could order production of an employee list as an *adjudicatory order*. Under this scenario, a *Proppant* rule order would be a nullity as a § 316(a)(12) “rule,” but the Director could rely on the limitless “discretion” of § 315(c) (as limited by other statutes and the PTO’s regulations) in each and every future adjudication.

This has basically the same disadvantages for the PTAB and Director:

- Each and every future decision will stand on its own bottom as an individual adjudication and PTAB order. Perhaps a *Proppant* decision could set out a comprehensive set of reasoning, and future decisions could excerpt that reasoning on a “cut and paste” basis. But an adjudication order under this option stands on essentially the same footing as one under the “policy statement” option of § IV.A—no binding effect, no foreclosure of counterarguments, no enhanced deference, no foundation for future decisions. Future decisions will have to be complete, and will be reviewed without regard to *Proppant*.
- Likewise, a future Director will be able to undo a *Proppant* rule by convening an afternoon picnic with a hand-picked panel of Board members, *a la Alappat*, and simply saying so.<sup>46</sup>

In addition to *Wyman-Gordon*, another good example is illustrated by the two *Chenery* cases at the Supreme Court.<sup>47</sup> In *Chenery I*, in 1943, the Supreme Court vacated

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<sup>44</sup> The recent “ordinary meaning” rule is an example. *Ordinary Meaning*, note 8 *supra*. By shortcutting nearly every step of rulemaking procedure, the PTAB created a “target rich environment” for challenging the rule on judicial review, and made it easy for a future Director to switch it back.

<sup>45</sup> See note 41.

<sup>46</sup> *Alappat*, note 15 *supra*, 33 F.3d at 1532, 31 USPQ2d at 1548.

an agency order because the agency’s explanation was inadequate to satisfy the Court that the agency had fully considered all relevant issues. In *Chenery II*, in 1947, the Court affirmed exactly the same order, when that order was accompanied by a more-complete explanation.

Armed with a *Proppant* order, the PTAB will be in exactly the same position it was before—the PTAB may decide joinder issues, so long as it fully explains itself, with no reliance on the *Proppant* order.

## V. What can the PTAB *not* do by a decision in *Proppant*?

It’s hard to see any way that any significant rule-by-adjudication could accomplish anything useful in this space.

Perhaps the PTAB is under the misimpression that a precedential decision on joinder could have binding effect, under *Chevron* deference. Nope.

- *Chevron* is only a standard of review rule. It is not a waiver of the APA, or grant of nonstatutory rulemaking authority. A rule can only be eligible for deference if it is *first* a validly-promulgated rule. A rule that is “procedurally defective” is not rescued from invalidity by extrastatutory deference.<sup>48</sup>

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<sup>47</sup> Compare *Chenery I*, note 41 *supra* (vacating an agency order that was inadequately explained) against *SEC v. Chenery Corp. (Chenery II)*, 332 U.S. 194 (1947).

<sup>48</sup> The biggest change of direction in the *Chevron/Auer* line of cases is stated in two sentences, one in *Gonzales v. Oregon*, 546 U.S. 243, 255–56 (2006):

Deference in accordance with *Chevron*, however, is warranted only “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.”

and the other in *Encino Motorcars, LLC v. Navarro*, 579 U.S. \_\_\_, \_\_\_, 136 S.Ct. 2117, 2125 (2016):

*Chevron* deference is not warranted where the regulation is ‘procedurally defective’—that is, where the agency errs by failing to follow the correct procedures in issuing the regulation.

See also *United States v. Mead Corp.*, 533 U.S. 218, 227 (2001) (an agency gap-filling regulation is entitled to *Chevron* deference “unless procedurally defective, arbitrary or capricious in substance, or manifestly contrary to the statute”). Since *Gonzales* in 2006, I know of no case in which the Supreme Court has affirmed an agency *gap fill* promulgated by less than full § 553 procedure maturing into a regulation. E.g., *Cuozzo Speed Technologies, LLC v. Lee*, 579 U.S. \_\_\_, \_\_\_, 136 S.Ct. 2131, 2144, 2146, 119 USPQ2d 1065, 1075, 1076 (2016) (because

*footnote continued...*

- To earn *Chevron* deference for a non-interpretation “gap fill,” the agency must act by “regulation.” A rule that is “procedurally defective” isn’t *Chevron*-eligible<sup>49</sup>—and any gap-fill requires rulemaking under § 553. In contrast, a precedential, formal adjudication by a tribunal with rulemaking authority may be eligible for *Chevron* deference if it only *interprets*, if it only gives ambiguous statutory terms “concrete meaning through a process of case-by-case adjudication.”<sup>50</sup> I know of no case that offers *Chevron* deference to a gap-fill reached by adjudication. There’s no extant language in the statute or regulation, so this route is not open to the PTAB,
- PTAB is not the rulemaking or policy-making organ of the PTO. As such, the PTAB has no rulemaking authority, and thus its decisions are not entitled to *Chevron* deference.<sup>51</sup>
- Section § 553 entitles the public to notice of a specific rule, and an opportunity to comment on that specific rule. If *Proppant* continues the direction it appears to be headed—gather comments, cook them up into a new rule out of public sight,

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Congressional delegated authority, and the agency’s regulation is reasonable exercise of that authority, granting *Chevron* deference for a gap-fill promulgated as a notice-and-comment regulation); *E.P.A. v. EME Homer City Generation, L.P.*, 572 U.S. 489, \_\_\_, \_\_\_, 134 S.Ct. 1584, 1593, 1607 (2014) (same).

Though there’s no direct holding on the point, the emerging trend is that to be *Chevron*- or *Auer*-eligible, a rule must not be “procedurally defective,” that is, an agency must meet all statutory requirements for rulemaking. For example, the agency must give an explanation for its interpretation or gap-fill that would meet the *State Farm* criteria for promulgating an interpretative or legislative rule. *Encino Motorcars*, 136 S.Ct. at 2125 (an agency action is only eligible for deference if it includes a “reasoned explanation”); *Aqua Products*, *supra* note **Error! Bookmark not defined.**, 872 F.3d at 1321-22, 124 USPQ2d at 1275-76 (O’Malley lead plurality opinion) (because PTO failed to explain itself, declining *Chevron* deference). Similarly, in the 1990s, agencies were given *Chevron* deference for interpretations outside their rulemaking authority, but that ended in 2001, with the recognition of *Chevron* “step zero” in *Mead*, note 48 *supra*, 533 U.S. at 226-227.

<sup>49</sup> *Encino Motorcars, LLC v. Navarro*, 579 U.S. \_\_\_, \_\_\_, 136 S.Ct. 2117, 2125 (2016); *Gonzales v. Oregon*, 546 U.S. 243, 255–56 (2006); *Aqua Products*, 872 F.3d at 1318-19, 124 USPQ2d at 1274 (O’Malley lead plurality opinion); *Aqua Products*, 872 F.3d at 1336, 124 USPQ2d at 1285 (Reyna, J. for the swing votes).

<sup>50</sup> *E.g.*, *INS v. Aguirre-Aguirre*, 526 U.S. 415, 425 (1999) (deference for Board of Immigration Appeals interpretation of “serious nonpolitical crime”); *National Railroad Passenger Corp. v. ICC*, 503 U.S. 407, 418-19 (1992) (*Chevron* deference to interpretation of “required for intercity rail service” stated in ICC order).

<sup>51</sup> See notes 34 and 38 *supra*.

and then present the public with a shiny new rule as a thing of self-apparent beauty—that would violate the “logical outgrowth” doctrine. A rule must either be proposed in a Notice of Proposed Rulemaking, or be a “logical outgrowth” of such a proposed rule.<sup>52</sup> Public comments are not sufficient basis for a revised rule; the public must be given an opportunity to comment on a specific proposal.<sup>53</sup>

- A notice-and-comment regulation is generally valid (and generally entitled to *Chevron* deference) if it’s within the agency’s delegated rulemaking authority and “not in conflict” with any statute, and developed as a full “regulation.” But “not in conflict” is not the test for a valid, let alone *Chevron*-eligible, *interpretative* non-notice-and-comment rule. A valid *interpretative* rule must be “within the fair intendment” of the statute or regulation being interpreted, that itself has force of law. The interpretative rule may not add binding content of its own.<sup>54</sup>
- The proceeding began all but in secret, without notice to the public (see § II starting at page 7). A “procedurally defective” rule is ineligible for deference.<sup>55</sup>

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<sup>52</sup> *Daimler Trucks No. Amer. LLC v EPA*, 737 F.3d 95, 102 (D.C. Cir. 2013) (final rule invalidated when it was not the logical outgrowth of the proposed rule); *South Terminal Corp. v. EPA*, 504 F.2d 646, 659 (1st Cir. 1974).

<sup>53</sup> *Mid-Continent Nail Corp. v. U.S.*, 846 F.3d 1364, 1378 (Fed. Cir. 2017) (an agency generally cannot bootstrap notice from a comment); *Benedict v. Super Bakery, Inc.*, 665 F.3d 1263, 1267–68, 101 USPQ2d 1089, 1092 (Fed. Cir. 2011) (“We agree with Mr. Benedict that Rule 2.127(d) does not clearly present the interpretation with which the Board now endows it. Only if one reads the PTO ‘comment’ does it become clear. The PTO ‘comment’ is not stated in the rule as adopted; the Rule does not state [the PTO’s interpretation.]”); *Chocolate Mfrs Ass’n of the U.S. v. Block*, 755 F.2d 1098, 1104 (4th Cir. 1985) (a change motivated by public comment letters required a new round of notice and comment).

<sup>54</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, 1313 (June 1992); *Fertilizer Institute v. EPA*, 935 F.2d 1303, 1308 (D.C. Cir. 1991) (“[A]s a general rule, an agency can declare its understanding of what a statute requires without providing notice and comment, but an agency cannot go beyond the text of a statute and exercise its delegated powers without first providing adequate notice and comment.”); *United Technologies Corp. v. EPA*, 821 F.2d 714, 719-20 (D.C. Cir. 1987) (“[T]hese cases show that what distinguishes interpretative from legislative rules is the legal base upon which the rule rests. If the rule is based on specific statutory provisions, and its validity stands or falls on the correctness of the agency’s interpretation of those provisions, it is an interpretative rule. If, however, the rule is based on an agency’s power to exercise its judgment as to how best to implement a general statutory mandate, the rule is likely a legislative one.”)

<sup>55</sup> See note 49 *supra*.

- If the PTAB intends to proceed under the “formal adjudications” provisions of 5 U.S.C. § 554, and to claim the benefits of § 554 to bind the public, then the PTAB has already sacrificed that option, by neglect of procedural formalities for notice:
  - The PTAB was required to give notice of all “matters of fact and law asserted.” The *Proppant* call for briefing fails—there’s no focused identification of issues. It’s more a cruel prank than a call for comment, more an open ended invitation to a snipe hunt than a genuine invitation to the public to apprise the PTO of views on a specific proposal.
  - The PTAB was required to assure that other parties had prompt notice of controverted issues. It’s almost as if the PTAB went out of its way to *avoid* notice to the public—it was a mere accident that this reached Dennis Crouch and his blog.
- The September revisions to Standard Operating Procedure 2 change nothing relevant to rulemaking. Agencies cannot use nonstatutory means to grant themselves rulemaking authority. The participation of the Director on a PTAB panel gives the PTAB no enhanced authority.<sup>56</sup> The D.C. Circuit considered a similar situation in which an agency had tried to bootstrap its own authority—a regulation that purported to grant authority to promulgate *ad hoc* rules—and found that attempt unlawful.<sup>57</sup> If an agency can’t grant itself rulemaking authority by regulation, it sure can’t do so by guidance.

## VI. What’s the right way for the PTAB to conduct its proposed rulemaking?

The answer is obvious: follow the statute.

The *Proppant* call for briefing suggests that the PTAB and Director Iancu want a rule on joinder that has some binding “teeth,” so that:

- Parties have an ascertainable standard, and can reasonably predict when joinder is likely or unlikely, and are genuinely foreclosed from arguing alternative bases.
- The PTAB must apply the rule as written.
- Future Directors are locked in.
- The PTO obtains *Chevron* deference for its rule.

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<sup>56</sup> See note 15 *supra*.

<sup>57</sup> *United States v. Picciotto*, 875 F.2d 345, 347 (D.C. Cir. 1989) (a regulation that permitted the Park Service to impose “additional reasonable conditions ... and limitations” is an invalid attempt by the agency to “grant itself a valid exemption to the APA for all future regulations.”).

How does the PTO go about promulgating such a rule?

Why are all components of the PTO so resistant to the simple answer? Follow the statute. I know of no law that authorizes an agency to substitute a “Precedential Opinion Panel” for statutory rulemaking process, if that Panel does not have rulemaking authority delegated from Congress by the agency’s organic statute.

*Proppant* seems to be preparing for a “substantive” rule, and there’s no underlying text to be “interpreted.” Thus, none of the exemptions of § 553 apply, and the statute demands notice-and-comment legislative rulemaking. How does that work?

- Often, an agency starts a rulemaking by publishing an “advance notice of proposed rulemaking” or “notice of inquiry.” This is appropriate for a “trial balloon” rule. If the agency needs more input before it can formulate its first draft proposal, a request for comment or roundtable is entirely proper. The briefing for *Proppant* could be re-purposed as this kind of preliminary consultation with the public to develop a rule for proposal—but the rule must still be *proposed* in a Notice of Proposed Rulemaking.
- What are the steps in notice-and-comment rulemaking? A full step-by-step timeline that lays out *all* the requirements under *all* the laws (at least all the laws I know of) may be found in several of my notice-and-comment letters at the PTO.<sup>58</sup> Mysteriously, all those letters are lost from the PTO’s web site.

## VII. Recommendations and conclusion

I have no dog in any fight for this particular rule (and in fact, given the chaos of the *status quo*, I favor the PTO’s implementation of the statutory obligation to promulgate regulations). My only interest is a Patent Office that works predictably and within the law.

The December 2018 *Proppant* order is just a request for briefing; the PTAB has taken no significant action yet. Nonetheless, the PTAB’s action is completely baffling.

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<sup>58</sup> Over the last few months, I have been repeatedly puzzled at how many of my 2010-2011-2012 notice and comment letters have disappeared from the PTO’s web site. In two or three of my letters around this time, I laid out a consolidated step-by-step timeline for all of the requirements under all the rulemaking laws I know of. *E.g.*, <https://www.uspto.gov/patents/law/comments/boundy23may2011.pdf> But somehow, *all* of the several letters in which I provided this timeline are no longer available on the PTO web site. The cause for selective disappearance of letters from me, while others remain, is something we need not speculate about today.

Of course I have replacement copies, and would be delighted to supply them if necessary.

How is *Proppant* different than *Aqua Products*? Of course there are differences, but are any of them relevant to any of the statutory principles that the Federal Circuit relied on in *Aqua Products*? Why does the PTAB improvise new rulemaking procedure? What's the matter with using the rulemaking processes Congress gave to the PTO, and using them the way other agencies do? Why not follow the statute? Does the PTAB believe that its new Standard Operating Procedure 2 gives the PTAB authority to set up its own rulemaking process, as a replacement for Congress'? What valid agency rule action can emerge from this briefing before the PTAB?

In 2011, the PTO requested comment on the PTO's compliance with rulemaking law, and how the PTO could improve its rulemaking process to better align with the public interest.<sup>59</sup> My letter<sup>60</sup> has a number of suggestions for improving the PTO's regulatory process. A letter<sup>61</sup> by Richard Belzer, who had spent a decade in the Office of Information and Regulatory Affairs, OMB's regulatory review shop, gives helpful (but rather pointed) insight and diagnosis, and a trenchant (but painful) treatment plan:

The USPTO is a longstanding, serial violator of established regulatory principles. This is the product of a bureaucratic culture that treats presidential direction as interference, is adamantly opposed to basing regulatory decision-making on informed analysis, and has serious difficulty adhering to the rule of law. Each of these deficiencies is by itself a likely reason for bureaucratic failure, but in combination, they make success virtually impossible. Correcting them requires a radical change in the organization's culture.

An important step forward would be for the Director to appoint a qualified individual charged with reforming the Office's culture and to delegate to this person both the responsibility and the authority to make it happen. Tasks would include replacing counterproductive existing internal systems with modern ones designed and implemented to ensure that the Office complies with statutory requirements (e.g., the Administrative Procedure Act, the Paperwork Reduction Act, and the Regulatory Flexibility Act) and presidential directives (e.g., Executive Orders 12866 and 13563, OMB's Bulletin for Good Guidance Practices, OMB's Information Quality Guidelines, and OMB Circular A-44). Systems need to be established to ensure that rule-writing staff do not backslide at a later

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<sup>59</sup> The letters are at <https://www.uspto.gov/patent/laws-and-regulations/comments-public/comments-improving-regulation-and-regulatory-review>

<sup>60</sup> <https://www.uspto.gov/patents/law/comments/boundy23may2011.pdf> (one of the curiously-disappeared letters, see note 58).

<sup>61</sup> <https://www.uspto.gov/sites/default/files/patents/law/comments/belzer14apr2011.pdf>

date. At a minimum, a number of personnel reassignments no doubt would be necessary.

Either the PTO is not being well served by its regulatory counsel, or it's not listening to counsel's advice. Two of the signatories on the *Proppant* order are Scott Boalick (the Acting Chief Administrative Patent Judge) and Drew Hirshfeld (the current Commissioner of Patents and former Deputy Commissioner for Patent Examination Policy). These two ought to be among those at the PTO with the deepest knowledge of, and respect for, the rule of law and the Administrative Procedure Act.

Particularly concerning to me is the lack of notice, and the way that the PTAB avoided not only statutory notice, but *all* venues reasonably calculated to provide notice to interested parties (see § II of this article, at page 7).

The PTO should establish a compliance department, analogous to the compliance function in any private sector company. A compliance function requires two things: deep expertise in the relevant law, and sufficient power to ensure that the client operates within that law. When I was in-house counsel, my role was to help my client follow the law—along the lowest-cost path, to be sure, but to follow it—and stop my client from getting into trouble or doing embarrassing stuff until we figured out a lawful path.

Everyone will be better off if the PTAB and Precedential Opinion Panel start over at square one, with observance of administrative law.

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