

2010-1499
(Application Serial No. 10/924,633)

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

IN RE JEFF LOVIN, ROBERT ADAMS, and DAN KURUZAR

Appeal from the United States Patent and Trademark Office,
Board of Patent Appeals and Interferences

**Brief of *Amicus Curiae* CFPH, L.L.C. in Support Of Appellants' Petition For
Rehearing And Rehearing En Banc**

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INTEREST OF *AMICUS CURIAE* CFPH, L.L.C

CFPH, L.L.C. (“CFPH”) is one of the business units within the Cantor Fitzgerald family of businesses. Cantor Fitzgerald is a preeminent capital markets investment bank and brokerage business, as well as a premier global financial services firm. After the World Trade Center attacks of September 11, 2001, Cantor relied in part on its patent portfolio to help reestablish its business. Cantor Fitzgerald invests heavily in new products and new companies, and relies on its patent portfolio to protect those investments. Accordingly, CFPH, along with Cantor Fitzgerald, has a strong interest in ensuring that the rules of the U.S. Patent & Trademark Office (“PTO”) are interpreted correctly and that inventors receive a fair examination of each and every claim presented to the PTO.¹

SUMMARY OF ARGUMENT

The PTO’s erroneous interpretation of 37 C.F.R. § 41.37 (“Rule 41.37”) impermissibly vitiates the Administrative Procedure Act (“APA”) and the Supreme Court’s holding that an applicant is entitled to a “cogent explanation” with a “rational connection between the facts found and the choice made.” *Motor Vehicle Mfrs. Ass’n v. State Farm Mut. Ins. Co.*, 463 U.S. 29, 43, 48 (1983). The examiner gave Lovin no meaningful notice of the grounds for rejecting the dependent claims. When an examiner fails to satisfy the basic requirements under the APA, an applicant’s appeal brief to the Board is complete if it raises either a procedural or a

¹ Pursuant to Federal Circuit Rule 29(c)(5), no party’s counsel contributed to authorship of this brief and no contributions covered by the Rule were used in preparation of this brief.

substantive argument. The Board and panel therefore erred by interpreting Rule 41.37 to require a “substantive” response to the examiner’s incomplete rejection. Lovin’s challenge to the rejection’s procedural completeness was fully sufficient.

The PTO’s erroneous interpretation of Rule 41.37 also improperly shifts the burden of proof, contrary with this Court’s precedent requiring the examiner to make his *prima facie* case first. *In re Oetiker*, 977 F.2d 1443, 1445 (Fed. Cir. 1992) (“If examination at the initial stage does not produce a *prima facie* case of unpatentability, then without more the applicant is entitled to grant of the patent.”). In addition, the PTO’s radical reinterpretation of its appeal rules violates a number of provisions of administrative law governing rulemaking.

ARGUMENT

I. The Panel Decision Disregards Basic Tenets Of Administrative Law And Improperly Shifts The Burden Of Proof To The Patent Applicant

This Court and the Supreme Court have made clear that the grant of a patent is an “entitlement,” unless and until the PTO sets forth a rejection that meets all requirements of the administrative law and Patent Act. *Oetiker*, 379 F.2d at 1445; *In re Warner*, 379 F.2d 1011, 1017 (CCPA 1967) (“The Patent Office has the initial duty of supplying the factual basis for its rejection.”). Until the PTO does so, an inventor is entitled to a patent. *Oetiker*, 379 F.2d at 1445; *see also Graham v. John Deere Co.*, 383 U.S. 1, 18 (1967) (“[T]he primary responsibility for sifting out unpatentable material lies in the Patent Office.”).

The PTO’s obligation to state and explain its *prima facie* case of nonobviousness arises under the basic framework of the APA. Under the APA, an

agency adjudication of a written application must give a “cogent explanation” that “examine[s] the relevant data” and articulates a “rational connection between the facts found and the choice made.” *State Farm*, 463 U.S. at 43, 48. Likewise, 5 U.S.C. § 555(e) requires that, in denying a written application, an agency’s “notice shall be accompanied by a brief statement of the grounds for denial.”

This Court has “recognize[d] that it is important to require the PTO to adequately explain the shortcomings it perceives so that the applicant is properly notified and able to respond,” not just throw evidence in the applicant’s general direction for the applicant to figure out. *Hyatt v. Dudas*, 492 F.3d 1365, 1370 (Fed. Cir. 2007); *see also In re Gartside*, 203 F.3d 1305, 1314 (Fed. Cir. 2000) (“We have expressly held that the Board’s opinion must explicate its factual conclusions, enabling us to verify readily whether those conclusions are indeed supported by ‘substantial evidence’ contained within the record.”).

The Board’s and panel’s interpretation of Rule 41.37 upends this established framework. This new interpretation of Rule 41.37 condones—and indeed encourages—an examiner who fails to explain why the PTO thinks a claim is not patentable. In the present case, the examiner provided Lovin with zero explanation of why the cited prior art allegedly rendered the dependent claims obvious—only a naked statement that the claims were rejected. (A083-85.) The examiner did not even bother to suggest which particular prior art reference met the additional elements of each dependent claim. Lovin was left with absolutely no idea as to *why* the examiner thought the prior art rendered the dependent claims obvious.

The Patent Office’s own rules require that an examiner designate the

“particular parts” of references relied on “as nearly as practicable,” and a give a “clear explanation” if the pertinence is not facially “apparent.” 37 C.F.R. § 1.104(c)(2).² The PTO recently confirmed its view of its rules in oral argument for *In re Jung*, 637 F.3d 1356 (Fed. Cir. 2011): “The examiner goes first. Under [35 U.S.C.] § 132, the examiner has an obligation to put the applicant on notice as to precisely what the rejection is, and to do so well enough so that the applicant knows how to respond.” See <http://oralarguments.cafc.uscourts.gov/default.aspx?fl=2010-1019.mp3> at 14:17.

The Board’s interpretation of Rule 41.37 is wrong because it demands a substantive response to a rejection that was never articulated by the examiner before that “substantive” response is due. Without the “reasoned” explanation required under the APA, *State Farm*, and 37 C.F.R. § 1.104(c)(2), Lovin could not reasonably know what part of the reference the examiner was relying on, or identify whether the “substantive” disagreement related to claim interpretation, the content of the references, the law to be applied, or the application of law to the facts.

Had the Board given Lovin only the bare identification of references that the examiner gave before Lovin wrote his appeal brief, this Court would almost certainly have vacated the rejection of claim 3. The PTO would not have been able to defend the rejection based on the administrative record. See *Gechter v.*

² Agency action that fails to satisfy the agency’s own regulations is “illegal and of no effect.” See *Vitarelli v. Seaton*, 359 U.S. 535, 545 (1959). In other words, an examiner’s action that violates § 1.104(c) does not constitute a valid rejection and thus provides nothing to the Board to affirm.

Davidson, 116 F.3d 1454, 1460 (Fed. Cir. 1997) (“[W]e hold that the Board is required to set forth in its opinions specific findings of fact and conclusions of law adequate to form a basis for our review. In particular, we expect that the Board’s anticipation analysis be conducted on a limitation by limitation basis . . .”). All Lovin would have had to do on appeal to this Court was exactly what he did before the Board—argue that the Board or examiner had not explained the *prima facie* obviousness rejection of claim 3. (A057-58.) Lovin’s arguments were indeed concise.³ But conciseness allows applicants and the Board to focus on the pertinent issues. More importantly, Lovin’s arguments to the Board were self-explanatory. The Board needed nothing further from Lovin to evaluate whether the examiner had or had not provided any explanation for the obviousness rejection.

The Board of course was entitled to weigh any *new* showings properly raised in the Examiner’s Answer (subject to 37 C.F.R. § 41.50(b)). But the Board erred in penalizing Lovin for raising the only available argument against the last action’s failure to explain the obviousness rejection.

There can be little doubt that Lovin presented a *procedural* argument identifying the examiner’s failure to explain the rejection—an argument that the Board never acknowledged, let alone addressed. (A025; A004-05.) Instead, the Board hid behind an incorrect interpretation of Rule 41.37 and held that Lovin

³ As Judge Bryson recognized during oral argument, Lovin’s arguments before the Board were arguments that would likely have been addressed had they been presented to this Court. *See* <http://oralarguments.cafc.uscourts.gov/default.aspx?fl=2010-1499.mp3> at 14:30-15:19.

waived his arguments. Lovin may have, under 37 C.F.R. § 41.37(c)(1)(vii), waived his ability to challenge the enablement of the prior art, for example. *See In re Kumar*, 418 F.3d 1361, 1368 (Fed. Cir. 2005) (“[T]o render an invention unpatentable for obviousness, the prior art must enable a person of ordinary skill to make and use the invention.”). But potential waiver of some substantive arguments is not “tantamount,” as the Board wrote, (A005), to waiver of a procedural argument.

The examiner’s rejection of claim 3 is no less arbitrary than the Drug Enforcement Agency’s conclusory and deficient denial of a petition to proceed *in forma pauperis* in *Tourus Records, Inc. v. Drug Enforcement Administration*, 259 F.3d 731, 737 (D.C. Cir. 2001). There, the D.C. Circuit concluded that the denial letter saying “nothing other than that the ‘Affidavit of Indigency you submitted in lieu of a cost bond is not adequately supported’” was “not a statement of reasoning, but of conclusion.” *Id.* at 737. The court concluded that the letter’s failure to explain the denial would have violated 5 U.S.C. § 555(e) and *State Farm. Id.*

Here, the rejection Lovin faced was nothing more than a “statement of conclusion.” Claim 3 and the other dependent claims were rejected without any reasoning. Because the examiner had provided no explanation, Lovin’s brief to the Board identified the procedural deficiency with the rejection:

[C]laim 3 recites a decelerating step of measuring for which there is no corresponding step taught or suggested in any [reference] ***The office action does not explain*** the lack of a teaching or suggestion of the step of claim 3 in the prior art

(A058.) Lovin’s argument to the Board was an argument that the examiner’s

rejection failed to “explain” as required by § 555(e), and therefore failed to state a *prima facie* case with sufficient specificity to permit a “substantive” rebuttal. Contrary to the panel decision, that argument is more than “merely pointing out what a claim recites” and is enough to trigger the Board’s obligation to address the claim language under a proper interpretation of Rule 41.37.

The Board’s interpretation of Rule 41.37 is contrary to statute, and to precedent of the Supreme Court and this Court, all of which require the PTO to give a “cogent explanation” for denying a patent claim. For these reasons, the Board’s interpretation is arbitrary, capricious, and contrary to law, and the panel’s decision must be reversed *en banc*.

Further, the net effect of the Board’s interpretation of Rule 41.37 is to improperly shift the established burden of proof. As the Supreme Court has explained, “[t]he assignment of the burden of proof is a rule of substantive law,” *Director, Office of Workers’ Compensation Programs v. Greenwich Collieries*, 512 U.S. 267, 271 (1994), and the PTO is not authorized to issue substantive rules, *Merck & Co. v. Kessler*, 80 F.3d 1543, 1549-50 (Fed. Cir. 1996). Accordingly, the PTO cannot change the burden of proof through rulemaking, let alone Board adjudications.

Finally, *en banc* review would provide the Court an opportunity to clarify a statement in *In re Jung*, 637 F.3d 1356 (Fed. Cir. 2011). The *Jung* panel stated that it saw “no reason to impose a heightened burden on examiners beyond the notice requirement of § 132.” *Id.* at 1363. But as explained above, the PTO and its examiners have obligations under the APA in addition to the Patent Act.

II. The Board's Interpretation Evades The Agency's Statutory Obligations For Rulemaking

35 U.S.C. § 2(b)(2)(A) requires the PTO to use statutory rulemaking procedures,⁴ as opposed to other agencies' power to issue rules through common law. The Board's new interpretation of Rule 41.37 is unquestionably a "rule" in the APA sense. *See Batterton v. Marshall*, 648 F.2d 694, 700-01 (D.C. Cir. 1980) (explaining the breadth of the term "rule" under 5 U.S.C. § 551(4)). With its new interpretation of Rule 41.37, the Board attempts to accomplish through informal adjudication what the PTO could not through rulemaking.⁵ The Board's attempt to bypass statutory procedure is impermissible.

In 2007, the PTO attempted to amend Rule 41.37 to implement a stricter burden on the applicant, similar to the "interpretation" the Board applied to Lovin. *See Rules of Practice Before the Board of Patent Appeals and Interferences in Ex Parte Appeals*, Notice of Proposed Rulemaking, 72 Fed. Reg. 41,472 (July 30, 2007). The proposed rule change would have required a patent applicant, on appeal to the Board, to "specify the specific limitations in the rejected claims that

⁴ Relevant rulemaking statutes include 5 U.S.C. § 553, the Regulatory Flexibility Act, the Paperwork Reduction Act, the Information Quality Act, and Executive Order 12,866.

⁵ The panel decision cites three cases, *Ex parte Pea*, No. 2008-005064, 2010 WL 373841 (B.P.A.I. Feb. 2, 2010), *Ex parte Carlsson*, No. 2007-2475, 2007 WL 4219726 (B.P.A.I. Nov. 29, 2007), and *Ex parte Portnoy*, No. 2004-1461, 2005 WL 951657 (B.P.A.I. 2005), as evincing the Board's "consistent interpretation." The panel neglected the key difference: None of *Pea*, *Carlsson*, or *Portnoy* suggests an applicant argument that the examiner's action was procedurally deficient. Two of the three appeal briefs are available on the PTO's web site, and neither raises any complaint that the examiner's explanation was insufficient. Citing these three as "consistent interpretation" relevant to the facts of Lovin's case is a misapprehension by the panel.

are not described in the prior art relied upon,” even when the examiner does not explain the rejection. *Id.* at 41,486 (proposed Rule 41.37(o)(6) and (7)). At that time, the PTO recognized that this change required statutory rulemaking. After notice and comment, the PTO withdrew the proposal. *See* Rules of Practice Before the Board of Patent Appeals and Interferences in Ex Parte Appeals; Final Rule, 73 Fed. Reg. 32,938, 32,948, 32,910 (June 10, 2008). The Board cannot now implement an “interpretation” of Rule 41.37 in order to accomplish what the PTO—after an aborted statutory rulemaking investigation—either chose not to do or found it lacked the authority to do.

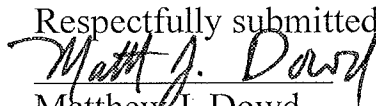
The PTO’s decision to amend Rule 41.37 through Board adjudication instead of rulemaking raises broader concerns about the PTO’s avoidance of the rulemaking process. As one of several examples of the PTO’s use of bypass procedures to promulgate rules that were barred to it in past years, the PTO in 2007 proposed to grant itself the authority to apply a restriction requirement to a single claim covering more than one species. *See* Examination of Patent Applications That Include Claims Containing Alternative Language, 72 Fed. Reg. 44,992 (Aug. 10, 2007). In other words, under its proposed “Markush” rules, the PTO would no longer examine a single claim directed to multiple species. This new application of restriction requirements under 35 U.S.C. § 121 would have been a significant change from past practice. Although the PTO certified that the change was “not significant for purposes of Executive Order 12866,” *i.e.*, imposes essentially zero cost on the public, *id.* at 44,999, the Small Business Administration and others raised serious questions about the costs of the proposed rule, thus requiring the

PTO to estimate the financial burden on small businesses, *see* Examination of Patent Applications That Include Claims Containing Alternative Language, Request for Comment on Initial Regulatory Flexibility Analysis, 73 Fed. Reg. 12,679 (Mar. 10, 2008).

The patent community also questioned the proposed Markush rules. *See, e.g.,* Testimony of Harold C. Wegner Responsive to Proposed Rulemaking, at <http://www.uspto.gov/web/offices/pac/dapp/opla/comments/markush/wegner.pdf> (“[T]he proposed rulemaking unduly complicates and frustrates biotechnology and pharmaceutical applicants from obtaining fair coverage for their pioneer innovations.”). The PTO chose not to implement the rule, but the Board has nevertheless recently decided to question this settled law concerning the interpretation of § 121. *See Ex parte DeGrado*, No. 2010-005832 (B.P.A.I. May 9, 2011) (Order For Further Briefing). At a minimum, the Board actions give the appearance that the Board is intentionally avoiding statutory rulemaking required by 35 U.S.C. § 2(b)(2)(A) and the APA.

III. Conclusion

The Court should grant rehearing and/or rehearing *en banc*.

Respectfully submitted,

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