IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Proppant Express Investments LLC Petitioner v. Oren Technologies, LLC Patent Owner	Case IPR2018-00914 Patent 9,511,929

BRIEF OF AMICUS DAVID BOUNDY IN SUPPORT OF NEITHER PARTY

Virtuous ends to not justify illegal means.

Only fourteen months ago, in *Aqua Products, Inc. v. Matal,* 872 F.3d 1290 (Fed. Cir. 2017) the Federal Circuit set aside an attempt by the PTAB to issue a rule 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." *Aqua Products,* 872 F.3d at 1339 (Reyna, J. concurring, for the swing votes).

I am deeply puzzled that the PTAB—especially the Precedential Opinion Panel—seems to be headed down exactly the same road. 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 *Aqua Products*?

A series of articles on general principles of administrative law, under the general title "The PTAB is Not an Article III Court," explain that, with very narrow exceptions, the PTAB may not engage in rulemaking:

- *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), https://ssrn.com/abstract_id=3258044 gives an overview of the law of rulemaking, including a taxonomy of various terms like "substantive," "procedural," "interpretative," and "legislative." At the March 2018 Federal Circuit Judicial Conference, Judge Plager recommended that the patent bar would do well to better understand the administrative law, and that this article is a particularly good place to begin.[1]
- *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 https://ssrn.com/abstract_id=3258047. This article takes an in-depth look at the failures of rulemaking law that underlay the PTO's loss in *Aqua*. Because *Proppant* seems to be headed down the same path as *Aqua*, this article might help the PTAB avoid a similar outcome.
- *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. This article explains what the PTAB can do and can't by precedential decision.

[1] 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

A new article, a *Cautionary Note*, is an expanded version of this brief that fills in more of the administrative law basics, and more of the reasoning between the premises and the conclusions. This may be useful for those less familiar with administrative law:

- *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 Product*s*, for the PatentDocs blog, available at http://ssrn.com/abstract_id=3301053 (revised Dec. 19, 2018).

I. The key facts and laws

The following laws govern rulemaking by PTAB precedential opinion:

0. The Administrative Procedure Act puts "adjudication" and "rulemaking" on opposite sides of a "dichotomy."[2]
1. The Director has substantive rulemaking authority in this area—not only authority, but a *duty* to promulgate *regulations*. § 316(a)(2) and (12).
2. The PTAB doesn't. The PTAB only adjudicates. Any rulemaking authority the PTO has lies with the Director. The PTAB, even with the Director on the panel, is not the Director: "[A]lthough the [Director] may sit on the Board, in that capacity he serves as any other member." *In re Alappat*, 33 F.3d 1526, 1535 (Fed. Cir. 1994). Standard Operating Procedures, Directors, Commissioners, titles like "Precedential Opinion Panel," or long powdered wigs aren't mentioned in the statute, and create no more extrastatutory rulemaking authority now than they did in *Aqua Products*.

[2] *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.

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. Any joinder rule to be issued is almost certainly "substantive," not "procedural," but it really doesn't matter, since the requirements for PTAB "regulation" end up essentially the same either way.[3]
   - Though it's impossible to definitively evaluate a rule that hasn't been proposed, a joinder rule seems almost certain to be "substantive" for § 553 rulemaking purposes. Presumably, the PTAB wants to reconcile its conflicting precedent by finding some nuanced, balanced set of substantive standards for allowing joinder. That is more likely to make the rule "substantive."
   - Even if a joinder rule were "procedural," the statute still requires the Director to act by "regulation," not by "rule" or some other lower-procedure mechanism.
4. Likewise, because there's no ambiguity in either statute or regulation relating to the three questions posed in *Proppant* (only silence), a joinder rule is almost certainly ineligible for the "interpretative" exemption, and will have to be promulgated by "legislative" procedure.
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). But gap-filling requires a *regulation*, by legislative, notice-and-comment rulemaking. A rule by adjudication may *interpret*, but not gap-fill.[4]

---

[3] The difference between the word "rule" and "regulation" is explored in *Part 3*, at § II(B)(1) pp. 4-7. A number of issues relating to this bullet, and consequent limits on the PTAB's rulemaking authority, are discussed in the *Part 3* and *Cautionary Note* articles.

[4] This is elaborated in *Part 1*, at 52-53, and *Part 3*, at §§ II and III.

II. *Proppant* violates the APA by failure to give public notice of proposed rulemaking

The *Proppant* notice avoids not only the Federal Register—the one and only statutorily-required publication venue—but every other plausible notice channel as well. *Proppant* 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, 5 U.S.C. §§ 552(a) and 553(b)), 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 sonar ping that detected this submarine rulemaking is that Dennis Crouch ran an article on his Patently-O blog. Publication by fortunate accident in a blog is not a substitute for the notice that, by statute, was to be published in the Federal Register.

Not only that, but *Proppant* gives the public only 25 days to comment. The APA sets a minimum comment period of 30 days, 5 U.S.C. § 553(d). Executive Order 12,866, § 6(a)(1), suggests that 60 days should be the norm. Any rule is likely to be covered by the Paperwork Reduction Act, which requires a 60-day comment period. 5 C.F.R. § 1320.3(c)(4)(i) (scope of coverage is any "requirement contained in a rule of general applicability"); 44 U.S.C. § 3506(c)(2)(A)

For ABA, AIPLA, IPO, or the relevant bar associations, 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. It's possible that one or more of these organizations will be able to scramble a brief, but if the PTAB receives comments from fewer than a normal number of these organizations, it will be confirmation that the PTAB's evasion of statutory requirements for a proper comment period had the predictable effect.

III. A near-perfect analogy from the Supreme Court

The action apparently contemplated by *Proppant* is essentially on all fours with *NLRB v. Wyman-Gordon Co.*, 394 U.S. 759 (1969), decided by the Supreme Court in 1969. The National Labor Relations Board had a rule, promulgated by precedential decision. 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.

The Supreme Court invalidated the NLRB's rule, and reminded the NLRB of the rulemaking requirements of the APA, as follows, 394 U.S. at 764-66:

> 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.

There's one major difference between *Wyman-Gordon* and *Proppant*: the NLRB has an agency head with *unified* adjudication powers and rulemaking powers. That gives the NLRB power to conduct rulemaking-by-adjudication in a way that's simply not available to agencies where rulemaking and adjudication are *bifurcated*, like the PTO. The difference in rulemaking power between unified agencies vs. bifurcated agencies is explained in *Martin v. Occupational Safety & Health Review Comm'n*, 499 U.S. 144, 151, 154 (1991), and my *Part 3* article.

Likewise, *Aqua Products* is essentially on all fours with where *Proppant* seems to be headed. In *Aqua*, the Federal Circuit set aside a PTAB rule that was not supported by underlying text of a regulation or statute, issued under a statute

that requires "regulation," and promulgated as a PTAB precedential decision without notice and comment. The Federal Circuit plurality was clearly correct in setting aside the *Aqua Products* rule, and it's not clear what goal would be served by seeking a rematch.

Can agency tribunals promulgate rules by formal adjudication? Some can, if the tribunal has rulemaking authority, and its adjudication procedures happen to overlap with and be sufficient to meet the rulemaking procedures of the APA. The PTAB is not one of those tribunals. 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, at § II(F), pages 16-17, and my *Cautionary Note* article:

- *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). False here.
  - That agency adjudication is a "formal adjudication" under the APA, 5 U.S.C. § 554. Getting *Proppant* off on a false-footed failure of statutory notice falsifies this element.

- *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. 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*.[5]
- *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.

---

[5] *SEC v. Chenery Corp.*, 318 U.S. 80, 93–95 (1943) is the classic case holding that when a party challenges an agency decision in court, the agency may only defend itself on the explanation it gave when it 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.

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 any agency action.

The analogies to *Wyman-Gordon* and to *Aqua Products*, analysis of possible claims for *Chevron* deference, and full case support for this bullet list of "only if's" are expanded in the *Part 3* and *Cautionary Note* articles.

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: collect a 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).

However, "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 agency decision-makers with complete, "open mind" discretion. The PTAB will be unable to rely on a policy statement to "foreclose consideration by the agency of positions advanced by private parties."[6] 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."

---

[6] 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).

- Policy statements are ineligible for *Chevron* or *Auer* deference.
- A future Director can change a "policy statement" as easily as it was adopted.
- All future decisions on joinder will have to set out full reasoning, to satisfy *Chenery* and *State Farm*, 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 NLRB's *rule*, it affirmed that the NLRB could order the same result as an *adjudicatory order*. Under this scenario, a *Proppant* rule order would be a nullity as a § 316(a)(12) "regulation," but the Director could rely on the near-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, with no grounding in or support from *Proppant*, no predictability, no deference, no foreclosure of alternatives, no support for shorter opinions as would be allowed by a regulation.
- A future Director will be able to undo a *Proppant* rule by convening an afternoon picnic with a hand-picked panel of Board members, in the manner of *Alappat*, and simply saying so.

V. What can the PTAB *not* do by a decision in *Proppant*?

The PTO can issue an interim rule under the emergency procedure of 5 U.S.C. § 553(d)(3), but must then follow up promptly with a proper notice-and-comment rulemaking. A proper notice-and-comment proceeding would allow an opportunity to correct a number of defects in the "ordinary meaning" rulemaking that expose that earlier rule to unpredictability and invalidity challenges.

Except for such an interim rule, it's hard to see any way that any significant rule-by-adjudication, of any binding effect, could arise out of this call for briefing. The problems are explained more fully in the *Cautionary Note* article.

VI. What's the right way for the PTAB to conduct a rulemaking?

The answer is obvious: follow the statute.

Assuming that the PTAB and Director Iancu want a joinder rule that has some binding "teeth," and achieves the following goals:

- Parties have an ascertainable standard, and can predict when joinder is likely or unlikely, and are foreclosed from arguing alternatives.
- The PTAB must apply the rule as written.
- Future Directors are locked in.
- The PTO obtains *Chevron* deference for its rule.

How does the PTO go about promulgating such a rule? Follow the statute. How does that work?

- Often, an agency starts a rulemaking by publishing an "advance notice of proposed rulemaking" or "notice of inquiry." The briefing for *Proppant* could be re-purposed as this kind of preliminary consultation

with the public to develop a rule, and that rule could then be formally 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 may be found in several of my notice-and-comment letters at the PTO.[7] Mysteriously, a high proportion of my comment letters on the basics of rulemaking procedural law from 2010-2011-2012 have "disappeared" from the PTO's web site.

VII. Recommendations

How is *Proppant* different than *Aqua Products*? Of course there are differences, but are any of them relevant to any statute, or to any of the factors that the Federal Circuit relied on in *Aqua Products*? Why not use statutory rulemaking procedure, the way other agencies do?

I am particularly struck by the avoidance of not only statutory notice, but *all* venues reasonably calculated to provide notice to interested parties (see § II of this brief, at page 5). What ***conceivable*** rationale or excuse is there for that?

The risks for the PTO and the public are significant. When the PTO promulgates a rule that is later invalidated, in the interim, members of the public are injured by decisions that are not only incorrect, but illegal.

A lack of understanding of administrative law pervades PTO statements, from PTAB decisions, to briefs by the Solicitor, to rulemaking notices, to petition

[7] https://www.uspto.gov/patents/law/comments/boundy23may2011.pdf

decisions from the Deputy Commissioner of Patent Examination Policy. Either the PTO is not being well served by its regulatory counsel, or too many senior PTO career staff are not listening to counsel's advice. 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.[8] My letter[9] has a number of suggestions for improving the PTO's regulatory process. Another letter[10] by Richard Belzer, who had spent a decade in the Office of Information and Regulatory Affairs, OMB's regulatory review shop, gives additional helpful insight and diagnosis, and a trenchant treatment plan. The PTO has not acted to correct the breaches of law that were identified in these two letters, let alone the suggested solutions.

Several suggestions for addressing the systemic failures of PTO's legal compliance appear in the last few pages of the *Part 3* article, and in another recent article, *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. 26, 2018), at http://ssrn.com/abstract_id=3258040

---

[8] The letters are at https://www.uspto.gov/patent/laws-and-regulations/comments-public/comments-improving-regulation-and-regulatory-review

[9] https://www.uspto.gov/patents/law/comments/boundy23may2011.pdf .

[10] https://www.uspto.gov/sites/default/files/patents/law/comments/belzer14apr2011.pdf

While I applaud the instinct to clarify the rules that have created chaos in the field of joinder, virtuous ends do not justify illegal means. I am deeply concerned at the PTO's noncompliance with law, and the lack of predictability that noncompliance will bring to the patent system.

VIII. Conclusion

Everyone will be better off if the PTAB and Precedential Opinion Panel start over at square one, with observance of administrative law.

Respectfully submitted,

CAMBRIDGE TECHNOLOGY LAW LLC

Dated: December 26, 2018 By: /David E. Boundy/
Registration No. 36,461

Cambridge Technology Law LLC
P.O. Box 590638
Newton, MA 02459
(646) 472-9737
(978)443-4812 (FAX)