



JONES DAY
COMMENTARY

***TAFAS V. DOLL*: THE FEDERAL CIRCUIT CONCLUDES THAT USPTO RULES ARE PROCEDURAL, CONTINUATION RULES ARE INVALID, AND LIMITS ON RCEs/CLAIMS ARE PERMISSIBLE**

On March 20, 2009, the U.S. Court of Appeals for the Federal Circuit (the “Federal Circuit”) issued a 2–1 panel decision holding that the U.S. Patent and Trademark Office’s (the “USPTO”) final rules published on August 21, 2007, regarding continuation applications and examination of claims were procedural, that the continuation rules were invalid as inconsistent with section 120 of the Patent Act, and that the USPTO’s limits placed on the filing of Requests for Continued Examinations (“RCEs”) and claims were permissible.

BACKGROUND

In January 2006, the USPTO issued two proposed rule changes directed to continuation applications and examination of claims. After receiving more than 500 comments and after much public debate, the USPTO published final rules on August 21, 2007, with an effective date of November 1, 2007 (the “Final Rules”).¹ Two of the new rules, Final Rules 78 and 114, are directed to continuation applications and RCEs, respectively. The other two new rules, Final Rules 75 and 265, are directed to the submission of an Examination Support Document (“ESD”) when more than five independent or 25 total claims are included in a patent application.

1. See Changes to Practice for Continued Examination Filings, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications, 72 Fed. Reg. 46,716 (Aug. 21, 2007).

SUMMARY OF THE FINAL RULES

Final Rule 78 governs continuation applications. Under this rule, an applicant is entitled to file two continuation applications as a matter of right. 37 C.F.R. § 1.78(d)(1)(i). Accordingly, if an applicant wishes to pursue more than two continuation applications, the applicant would be required to file a petition “showing that the amendment, argument, or evidence sought to be entered could not have been submitted during the prosecution of the prior-filed application.” *Id.* § 1.78(d)(1)(vi). If the applicant does not make the requisite showing, the USPTO would accept the application for examination but would “refuse to enter, or would delete if present, any specific reference to a prior-filed application.” *Id.* § 1.78(d)(1).

Final Rule 114 provides for similar treatment of RCEs. Under this rule, an applicant is allowed one RCE as a matter of right. *Id.* § 1.114(f). For each additional RCE, the applicant must file a petition “showing that the amendment, argument, or evidence sought to be entered could not have been submitted prior to the close of prosecution in the application.” *Id.* § 1.114(g). According to this rule, the limitation on RCEs is applied on the basis of application families, rather than individual applications. *Id.* § 1.114(f).

Final Rule 75 requires an applicant that includes either more than five independent claims or 25 total claims in a patent application, to submit an ESD. *Id.* § 1.75(b)(1). The requirements for ESDs are set forth in Final Rule 265 and require an applicant to: (i) conduct a preexamination prior art search, (ii) provide a list of the most relevant references, (iii) identify which limitations are disclosed by each reference, (iv) explain how each independent claim is patentable over the references, and (v) show where in the specification each limitation is disclosed in accordance with 35 U.S.C. § 112, ¶ 1. 37 C.F.R. § 1.265(a).

THE DISTRICT COURT DECISION

On October 31, 2007, the United States District Court for the Eastern District of Virginia preliminarily enjoined enforcement of the Final Rules. *Tafas v. Dudas*, 511 F. Supp. 2d 652 (E.D. Va. 2007) (“*Tafas I*”). *Tafas* then moved for summary judgment that the Final Rules were invalid and sought a permanent injunction against their enforcement. The district court agreed with

Tafas that the Final Rules were “substantive rules that change existing law and alter the rights of applicants such as [*Tafas*] under the Patent Act.” *Tafas v. Dudas*, 541 F. Supp. 2d 805, 814 (E.D. Va. 2008) (“*Tafas II*”). Specifically, the district court found that the Final Rules created limits on continuation applications, RCEs, and claims that were inconsistent with (i) several sections of the Patent Act, and (ii) precedent from the Federal Circuit and its predecessor court, the Court of Customs and Patent Appeals. The district court concluded that because the USPTO lacks substantive rulemaking authority under *Merck & Co., Inc. v. Kessler*, 80 F.3d 1543, 1550 (Fed. Cir. 1996), the Final Rules exceed the USPTO’s statutory jurisdiction in violation of 5 U.S.C. § 706(2). *Tafas II*, 541 F. Supp. 2d at 814. Accordingly, the district court granted *Tafas*’ motion for summary judgment that the Final Rules were invalid.

THE FEDERAL CIRCUIT DECISION

In a 2–1 panel decision written by Judge Prost with a concurring opinion by Judge Bryson and a dissenting opinion by Judge Rader, the majority held that the Final Rules were procedural rules that are within the scope of the USPTO’s rulemaking authority under section 2(b)(2)(A) of the Patent Act. However, the majority found that Final Rule 78 directed to continuation applications was inconsistent with section 120 of the Patent Act and was therefore invalid. Accordingly, the majority affirmed the district court’s grant of summary judgment that Final Rule 78 was invalid, vacated its grant of summary judgment with respect to Final Rules 75, 114, and 265, and remanded the case for further proceedings consistent with its opinion.

THE FEDERAL CIRCUIT’S MAJORITY OPINION

The majority opinion written by Judge Prost and joined in by Judge Bryson, as discussed below, initially recognized that section 2(b)(2)(A) of the Patent Act did “not vest the USPTO with any general substantive rulemaking power” and cited several precedential decisions that supported this point. *Tafas v. Doll*, 2009 WL 723353, at *3 (Fed. Cir. March 20, 2009) (“*Tafas III*”) (citing *Animal Legal Def. Fund v. Quigg*, 932 F.2d, 920, 930 (Fed. Cir. 1991); *Merck*, 80 F.3d at 1550; and *Cooper Techs. Co. v. Dudas*, 536 F.3d, 1330, 1335 (Fed. Cir. 2008)). In addition, with respect to the level of deference that should be

accorded to the USPTO, the majority stated that “[c]ases from this court have concluded, in different circumstances, that an agency’s determination of the scope of its own authority is not entitled to *Chevron* deference.” *Tafas III*, 2009 WL 723353, at *4. Consequently, the majority declined to accord *Chevron* deference with respect to whether the USPTO has *substantive* rulemaking authority. *Id.* at *5. The majority did, however, note that the Federal Circuit’s precedent was clear that *Chevron* deference should be accorded to *procedural* rules promulgated under section 2(b)(2)(A) and section 132(b) of the Patent Act. *Id.*

With this understanding, the majority examined the standard used in the U.S. Supreme Court case of *Chrysler Corp. v. Brown*, 441 U.S. 281 (1979), to define a substantive rule as “any rule that affects individual rights and obligations,” to the standard used in the *JEM* case, *JEM Broad. Co. v. FCC*, 22 F.3d 320 326 (D.C. Cir. 1990). In *JEM*, the D.C. Circuit defined a *substantive* rule as one that does not “alter the rights or interests of parties, although [they] may alter the manner in which the parties present themselves or their viewpoints to the agency.” *Tafas III*, 2009 WL 723353, at *6 (quoting *JEM*, 22 F.3d at 326). In discussing these two different standards, the majority stated that “we do not read *Chrysler* to create such a broad and absolute rule.” *Tafas III*, 2009 WL 723353, at *5. Instead, the majority stated that “the D.C. Circuit has considered many of the issues underlying the present case and has understandably hesitated to adopt a conclusive test for when rules cross the line between procedure and substance.” *Id.* at *6.

In reviewing the line of D.C. Circuit cases, the majority stated that “[w]e are most persuaded in this case by the D.C. Circuit’s approach in *JEM*.” *Id.* In *JEM*, the issue was the FCC’s adoption of stringent rules that did not allow applicants for FCC broadcasting licenses to cure mistakes made in their initial applications. According to the majority, “[u]nder those rules, applications that either failed to include necessary information or contained incorrect or inconsistent information that could not be ‘resolved within the confines of the application and with a high degree of confidence’ were

dismissed with no opportunity to cure the defect.” *Tafas III*, 2009 WL 723353, at *6 (quoting *JEM*, 22 F.3d at 322). The majority stated that the D.C. Circuit “rejected *JEM*’s contention that the rules were *substantive* because they ‘deprive[d] license applicants of the opportunity to correct errors or defects in their filings.’” *Tafas III*, 2009 WL 723353, at *6 (quoting *JEM*, 22 F.3d at 327). In doing so, according to the majority, the *JEM* court “noted that a ‘critical feature of the procedural exception [in section 553 of the APA] is that it covers agency actions that do not themselves alter the rights or interests of parties, although [they] may *alter the manner in which the parties present themselves or their viewpoints to the agency.*’” *Tafas III*, 2009 WL 723353, at *6 (quoting *JEM*, 22 F.3d at 326) (emphasis in original). According to the majority, the D.C. Circuit stated that the critical fact that was fatal to *JEM*’s claim was that the FCC rules “did not change the substantive standards by which the FCC evaluates license applications.” *Tafas III*, 2009 WL 723353, at *6. The *JEM* court “recognized that the rules could result in the loss of substantive rights, but found that they were nonetheless procedural because they did not ‘foreclose effective opportunity to make one’s case on the merits.’” *Id.* (quoting *JEM*, 22 F.3d at 327-28). At least for the reasons provided above in relation to the *JEM* case, the majority held that the Final Rules were *procedural* because they “govern the timing of and materials that must be submitted with patent applications [and] ‘alter the manner’ in which the parties present ... their viewpoints to the USPTO, but they do not, on their face, ‘foreclose effective opportunity’ to present patent applications for examination.” *Tafas III*, 2009 WL 723353, at *7 (quoting *JEM*, 22 F.3d at 326, 328).

After concluding that the Final Rules were procedural, the majority accorded *Chevron* deference to the USPTO’s interpretation of the provisions of the Patent Act that relate to procedural matters *unless* the Final Rule was inconsistent with specific provisions of the Patent Act. *Tafas III*, 2009 WL 723353, at *10. For example, the majority stated that Final Rule 78, directed to continuation applications, was inconsistent with section 120 of the Patent Act because section 120 unambiguously states that an application that includes

2. The four requirements are: (i) the invention claimed in the application must have been properly disclosed in a prior-filed application; (ii) the application must have been filed by inventor(s) named on the prior-filed application; (iii) the later application must have been “filed before the patenting or abandonment of or termination of proceedings on the first application or on an application similarly entitled to the benefit of the filing date of the first application”; and (iv) the application must contain or be amended to contain a specific reference to the prior-filed application.”

the four requirements of section 120² “shall have the same effect, as to such invention, as though filed on the date of the prior application.” *Tafas III*, 2009 WL 723353, at *11 (emphasis in original). Consequently, the majority stated “[t]hus, Rule 78 is invalid because it attempts to add an additional requirement—that the application not contain amendments, arguments, or evidence that could have been submitted earlier—that is foreclosed by the statute.” *Id.*

In contrast, the majority stated that section 132 of the Patent Act did not unambiguously dictate that its provisions be applied on a per-application basis and, therefore, the majority stated that “because we defer to the USPTO’s reasonable interpretation of the statute, we conclude that Final Rule 114 can properly be applied on a per family basis.” *Id.* at *13. Consequently, the majority held that Rule 114 did not conflict with Section 132 and therefore the USPTO has the right to limit the number of RCEs that can be filed on a per-family basis. *Id.* at 14.

Similarly, in regard to Final Rules 75 and 265 requiring an applicant to submit an ESD if the patent application includes either more than five independent claims or 25 total claims, the majority stated that they “need not decide whether the USPTO may impose a limit on the number of claims an applicant can pursue because we do not find that the ESD requirement creates any such limit.” *Id.* Instead, the majority stated that Final Rules 75 and 265 simply require “that an ESD be submitted if more than five independent or twenty-five total claims are included in certain sets of co-pending applications.” *Id.* According to the majority, because Final Rules 75 and 265 do not “effectively foreclose applicants from successfully submitting ESDs, we similarly cannot conclude that these rules place an absolute limit on claim numbers in violation of § 112, ¶ 2.” *Id.*

JUDGE BRYSON’S CONCURRING OPINION

Judge Bryson agreed with the points made by Judge Prost in the majority but included additional observations. In particular, Judge Bryson did not believe that the substantive/procedural debate was particularly helpful, noting that “the question whether the PTO is authorized to promulgate particular regulations does not turn on an abstract inquiry into whether a particular rule can be characterized as

substantive, procedural, or interpretive. Instead, it calls on us to ask what Congress has empowered the PTO to do through rulemaking” as dictated by section 2(b)(2)(A) of the Patent Act. *Id.* at *16. Judge Bryson stated that section 2(b)(2)(A) vests the USPTO “with authority to promulgate regulations that ‘govern the conduct of proceedings in the Office,’” and consequently, he was “satisfied that the regulations in this case are of the type that Congress authorized in section 2(b)(2)(A) of the Patent Act.” *Id.* at *16-17.

According to Judge Bryson, the issue came down to whether the challenged regulations are consistent with other provisions of the Patent Act. *Id.* at *17. For Final Rule 78, Judge Bryson agreed with Judge Prost that “Final Rule 78 is invalid because it limits the number of continuation applications that may be filed and applies that limit even if all of the continuation applications are filed while the first application is still pending.” *Id.* at *18. However, Judge Bryson stated that a question remains open as to whether serial continuations are consistent with section 120, as a reasonable interpretation of *In re Henriksen*, 399 F.2d 253, 254 (C.C.P.A. 1968) would be that “applicants would be limited to a maximum of two continuations in series—one while the first application is pending and another while the first continuation is pending.” *Tafas III*, 2009 WL 723353, at *18.

JUDGE RADER’S DISSENTING OPINION

Judge Rader agreed with the majority that “the PTO is not entitled to *Chevron* deference with respect to its own rule-making authority.” *Id.* However, in Judge Rader’s view, “the Final Rules are substantive, not procedural.” *Id.* In addition, Judge Rader concurred with the majority’s ultimate conclusion regarding Final Rule 78 but dissented in part with respect to Final Rules 114, 75, and 265. *Id.*

With respect to the threshold question about the nature of the Final Rules, Judge Rader stated that the determination regarding whether the Final Rules are substantive or procedural should be determined on a case-by-case basis, noting that “[c]entral to this jurisprudence is the recognition that classifying a rule as substantive or non-substantive is a *case-by-case exercise*, poorly suited for bright-line rules.” *Id.* at *20 (emphasis added). Furthermore, according to Judge Rader, the majority seized upon the instructive language

from *JEM* whereby “the ‘critical feature’ of a procedural, non-substantive rule is that ‘it covers agency actions that do not themselves alter the rights or interests of parties, although it may alter the manner in which the parties present themselves or their viewpoints to the agency.’” *Id.* at *21 (quoting *JEM*, 22 F.3d at 326). Judge Rader further stated that the majority, however, “sadly overlooks *JEM*’s ensuing statement: ‘[t]he issue, therefore, is *one of degree* . . . our task is to identify which substantive effects are *sufficiently grave*...” *Tafas III*, 2009 WL 723353, at *21 (quoting *JEM*, 22 F.3d at 327). On this basis, Judge Rader stated that “[t]o my eyes, this question of degree must guide this court’s assessment of the substantive nature of the PTO’s Final Rules.” *Tafas III*, 2009 WL 723353, at *21.

Based on this analysis, Judge Rader stated that with respect to Final Rule 78, “[i]n mechanically applying only one statement from *JEM*, the majority opinion ignores that the ‘substantive effect’ of failing to meet this new obligation—the loss of priority date—is ‘sufficiently grave’ to make this rule substantive.” *Tafas III*, 2009 WL 723353, at *23 (quoting *JEM*, 22 F.3d at 327). Similarly, with respect to both Final Rules 78 and 114, Judge Rader stated, “[t]he impact and reach of the Final Rules 78 and 114 (“the 2+1 Rule”) *significantly affects* patent prosecution.” *Tafas III*, 2009 WL 723353, at *24 (emphasis added).

With respect to Final Rule 75, Judge Rader emphasized that placing an arbitrary limit on the number of claims in an application “*drastically affects* an applicant’s rights and obligations under the Patent Act.” *Id.* (emphasis added). Similarly, Judge Rader stated that the ESD requirements imposed by Final Rule 265 “goes too far ... by requiring an applicant to conduct a broad search of patents, patent applications, and literature, and provide, among other things, a detailed explanation of how each of the independent claims is patentable over the cited references.” *Id.* at *25 (quoting *Tafas II*, 541 F. Supp. at 816). At least for all the reasons provided above, Judge Rader concluded that “[b]ecause the Final Rules *drastically change* the existing law and alter an inventor’s rights and obligations under the Patent Act, they are substantive and the PTO exceeded its statutory rulemaking authority under 35 U.S.C. § 2(b)(2)(A).” *Tafas III*, 2009 WL 723353 at *25 (emphasis added).

CONCLUSION

This case represents the Federal Circuit’s entry into the ongoing debate regarding the U.S. Patent and Trademark Office’s authority to implement a controversial set of rules directed to limiting the number of continuation applications, RCEs, and claims in a patent application family, which were initially proposed in January 2006. This entry will likely not be short lived, as *Tafas* has already indicated that it will request a rehearing *en banc* by the Federal Circuit. Applicants should continue to monitor this case and all related cases as they will determine the standard(s) for whether the Final Rules, as well as previously proposed rules—including the IDS, Markush, and Board of Patent Appeals and Interference rules—and future rules including those related to deferred examination, are substantive or procedural. In addition, applicants should note that the USPTO has published a notice on its web site indicating that the “USPTO is not implementing Final Rules at this Time.”

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