

NO. 18-801

IN THE
Supreme Court of the United States

**LAURA PETER, DEPUTY DIRECTOR, PATENT
AND TRADEMARK OFFICE,**
Petitioner,

v.

NANTKWEST, INC.,
Respondent.

**On Writ Of *Certiorari* to the
United States Court Of Appeals
For The Federal Circuit**

**BRIEF OF *AMICUS CURIAE* IEEE-USA
IN SUPPORT OF RESPONDENT**

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INTEREST OF *AMICUS CURIAE* ¹

IEEE-USA is an organizational unit of The Institute of Electrical and Electronics Engineers, Inc. (IEEE), the world's largest technical professional organization dedicated to advancing technology for the benefit of humanity. IEEE-USA supports the nation's prosperity and competitiveness by fostering technological innovation for the benefit of all, including about 180,000 U.S. engineers, scientists, and allied professionals who are members of the IEEE.

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¹ Pursuant to Supreme Court Rule 37.6, counsel for the *amicus curiae* certifies that no counsel for any party authored this brief in whole or in part and that no person or entity other than the *amicus*, its membership, or its counsel made a monetary contribution intended to fund the preparation or submission of the brief. Rule 37.3(b) written consent to the filing of this *amicus* brief has been provided by all parties.

examination errors, thus focusing quality control measures within the examination process in the first place, rather than over-focusing such efforts at the later most disruptive and costly stage—post-grant. While IEEE-USA supports Respondent on the statutory construction question presented, we take no position on the question of the patentability of the underlying patent at issue.

SUMMARY OF ARGUMENT

This case will resolve the question of whether the U.S. Patent and Trademark Office (“PTO”) will be permitted to create a financial deterrent against patent applicants wishing to challenge its decisions in district court by civil action under 35 U.S.C. §145.

Section 145 provides that “[a]ll the expenses of the proceedings shall be paid by the applicant.” And the PTO raises a novel theory interpreting “expenses” to include expenditures of salaries of its legal professional. This violates the American Rule under which each litigant pays their own attorney’s fees. The PTO’s interpretation would require an applicant in a civil action to pay the PTO, not only its expenses, but also its attorney fees regardless of who prevails in the case.

The PTO’s construction of the term “expenses,” will strongly dampen applicants’ ability to proceed with Section 145 actions and will have a pronounced chilling effect on future applicants considering whether to file Section 145 actions. Costs to applicants would more than double because the PTO’s demand for attorney fees was nearly double

its demand for expenses and because the PTO would have no incentives to contain or limit the resources it allocates for such proceedings.

Data on Section 145 actions in the last decade reveals that small entities are about four times more likely to resort to Section 145 proceedings after receiving adverse Board decision and will suffer much prejudice should this Court hold in favor of the PTO. Such decision will adversely impact patent applicants with limited means such as startup and small business inventors by deterring their access to district court.

For the foregoing reasons and those explained further below, this Court should affirm the decision of the Court of Appeals for the Federal Circuit.

ARGUMENT

I. SECTION 145 PROCEEDINGS PROVIDE A CRUCIAL CHECK ON THE PTO, TO THE BENEFIT OF ALL INVENTORS

The rights provided by 35 U.S.C. § 145 encourage inventors to go through the arguess patent application process to its conclusion; it encourages the filing of patent applications in the first place, and therefore the disclosure and exploitation of advances in science and technology. This furthers the constitutional goal of advancing the progress of useful arts. U.S. Const. Art. I, § 8, cl. 8. The PTO's position on § 145 would chill filing patent disclosures and suppress the securing of

exclusive rights to incentivize investments in new inventions, and is therefore contrary to the express goal of the Constitution.

I.A Section 145 Civil Actions differ in purpose and effect from Section 141 appellate review

The Patent Act gives a patent applicant disappointed with the PTO's adverse decision two options for challenging the PTO's decision. The applicant may either: (1) appeal the decision directly to the United States Court of Appeals for the Federal Circuit, pursuant to 35 U.S.C. § 141; or (2) file a civil action against the Director of the PTO in U.S. district court pursuant to 35 U.S.C. § 145. The options are mutually exclusive. 35 U.S.C §§ 141, 145.

Appeals of PTO decisions to the Federal Circuit are subject to the deferential "substantial evidence" standard of review of findings of fact, and typically limited to the administrative record before the PTO. 35 U.S.C. § 144; *Dickinson v. Zurko*, 527 U.S. 150, 152 (1999). If the PTO's fact-findings are supported by "substantial" evidence, then the court may even affirm the PTO's decision without opinion. Fed. Cir. R. 36.

By contrast, Congress' choice of the term "civil action" in crafting the language of § 145 (or "bill in equity" for its predecessor R.S. § 4915) rather than "appeal" makes clear that the district court is to exercise original—as opposed to appellate—jurisdiction for adjudicating the factual and legal predicates of the PTO decision. Crucially, a Section

145 proceeding is not “governed by the deferential principles of agency review” and upon conclusion it “does not provide for remand to the PTO.” *Kappos v. Hyatt*, 566 U.S. 431, 439 (2012). “Unlike § 141, § 145 permits the applicant to present new evidence to the district court that was not presented to the PTO. This opportunity to present new evidence is significant, not the least because the PTO generally does not accept oral testimony.” *Id.* at 435. Moreover, evidence that was not available during prosecution may be introduced in Section 145 proceedings. This includes, for example, objective indicia of nonobviousness that becomes available only later, during the sale or use of the invention.

As this Court recognized in *Hyatt*, any party in a Section 145 proceeding is permitted to introduce evidence not presented at the PTO “ ‘according to the ordinary course of equity practice and procedure.’ ” *Hyatt*, at 441 (quoting *Butterworth v. United States ex rel. Hoe*, 112 U.S. 50, 61 (1884)). Unlike the Federal Circuit, the district court is thus required to balance the *equities* of the parties. The PTO itself benefits from this wider scope of record and can rely on new evidence being entitled to compel discovery production by applicant of evidence not previously available in prosecution that bears on threshold matters of patentability. This includes evidence pertaining to “conception, development, testing, diligence, and reduction to practice of the inventions claimed.” *BTG Int’l Ltd. v. Kappos*, No. 1:12-cv-682, Doc. 55, at 12 (E.D. Va. Mar. 13, 2013) (seeking to compel discovery on such matters). Examiners cannot *compel* such submission of evidence during prosecution of the application at the PTO.

The opportunity for adducing new evidence, and the *de novo* standard of review for findings, is a significant advantage to applicants in Section 145 proceedings over Section 141 appeals. Another advantage is the *finality* and with commensurate *binding effect* of the district court's judgement. A Section 145 civil action in which the PTO is a defendant is a case or controversy within the meaning of Article III of the Constitution. It involves adjudication and finding based on all competent evidence and concludes in a *judgment*. If in the applicants' favor, the judgement determines that the "applicant is entitled to receive a patent for his invention." § 145. The judgment of the court is not advisory – "[i]t is not a technical appeal from the Patent–Office, like that authorized" before the Federal Circuit, "confined to the case as made in the record of that office. *Hyatt*, at 441 (quoting *Butterworth*). Indeed, this Court has regarded Section 145's predecessor, R.S. 4915, as "providing for a bill in equity to *compel* the Commissioner of Patents to issue a patent". *Baldwin Co. v. Robertson*, 265 U.S. 168, 179 (1924) (emphasis added).

A judgement under Section 145 should have *res judicata* and estoppel effect, and the PTO should not be able to circumvent that preclusive effect by reopening prosecution or by means of reexamination or post-issuance review.² *Res judicata* would be of substantial

² Although no case law has developed in this area, it has been persuasively suggested that such preclusive effect essentially immunizes a patent issued following Section 145 judgement from subsequent administrative reexamination or post-issuance reviews in AIA trials at the PTO. See Michael Greve, "Exceptional, After All and After Oil States: Judicial Review

benefit to applicants because it would prevent repeated PTO's "bites at the apple" that delay patent issuance. In contrast, certain Federal Circuit decisions on *ex parte* appeals vacate and remand to the PTO for "further proceedings in the case." 35 U.S.C. 144.³ And under the PTO's guidance to examiners, "[i]n some situations it may be necessary to reopen prosecution of an application after a court decision." Manual of Patent Examining Procedure, MPEP § 1216.01 (I.D) *Reopening of Prosecution*.

I.B Affirmance will preserve a palpable and needed benefit for all patent applicants

Affirmance of the Federal Circuit decision in this case will preserve a palpable and needed benefit for all patent applicants, providing incentive to file patent applications. Reversal would deprive aggrieved applicants of redress against the PTO through adversarial adjudication, reducing the incentive to file patent applications. As shown below, the adverse effects of the mere prospect of having to pay the PTO's attorney's fees are empirically evident from the public expectation in the aftermath of the Fourth Circuit's *Shammas* decision. *Shammas v. Focarino*, 784 F.3d 219 (4th Cir. 2015), *cert. denied sub nom. Shammas v.*

and the Patent System," *George Mason Legal Studies Research Paper* No. LS 19-04. at 34 (May 1, 2019). Available at SSRN: <https://ssrn.com/abstract=3381076>.

³ Some Judges of the Federal Circuit believe that remand, instead of reversal, of *ex parte* appeals from the PTO, is inappropriate. See Judge O'Malley's dissent in *Icon Health and Fitness, Inc. v. Strava, Inc.*, 849 F. 3d 1034, 1049 (Fed. Cir. 2017).

Hirshfeld, 136 S. Ct. 1376 (2016). The Appendix attached hereto lists all cases (21) that were filed in the last 10 years under Section 145 and survived initial jurisdictional and procedural requirements. The table does not show pending cases filed prior to 2009. As the Appendix details, the data were obtained from the PACER federal court system. Several observations from that record are of great importance and described below.

I.B.1 Voluntary Dismissals

The column under the heading ‘Early Disposition Note’ captures cases that were disposed early in the process, showing the date and the nature of the disposition. Note that with relation to those dates, a row dated 29 April 2015 is inserted to indicate timing of the Fourth Circuit’s decision in *Shammas v. Focarino*, 784 F.3d 219, (4th Cir. 2015) – a decision adverse to the applicant, signifying that the law on “all expenses of the proceedings,” may have changed. The content of the *Shammas* decision and its implications for patent civil actions under Section 145 was widely disseminated in the patent community⁴. Note that reasonably soon after that appellate decision, there were three Voluntary Dismissals by Applicants. These were Eastern District of Virginia cases *Bernstein et al v. Lee*, 14-cv-1723, *Safwat v. Lee*, 15-cv-0630, and *NextPat Ltd.*

⁴ *E.g.*, Dennis Crouch, “USPTO Can Demand Attorney Fee Awards, Even When it Loses the Case,” *PatentlyO* (July 2, 2015). Available at <http://patentlyo.com/patent/2015/07/demand-attorney-awards.html>; Dennis Crouch “Filing a Civil Action and Paying Fees,” *PatentlyO* (November 1, 2015). Available at <http://patentlyo.com/patent/2015/11/filing-action-paying.html>.

v. Lee 15-cv-1656. These were unilateral dismissals of the respective case before substantial costs were incurred or discovery conducted. Therefore, the applicants who voluntarily dismissed their cases were unlikely to have had new information intrinsic to the merits of their case. It is very reasonable to conclude that the factors leading to the decisions to voluntarily dismiss the cases were extrinsic and the timing strongly suggests that it might well have been due to the shift in the perceived risk to applicant. The decision in *Shammas* raised the prospect of additional unknown and uncapped legal fees, and the move of choice was to “bail out” before those liabilities attached. This is supported by the fact that, of eleven (11) cases, no such voluntary dismissals occurred before the *Shammas* decision – all occurred within months after that decision.

The increased risk and liability to applicants is tangible. Beyond paying their own expenses and attorney fees, under the PTO’s construction of the term “expenses,” applicants would have to bear the additional prohibitive costs of the government attorney and paralegal fees—even when prevailing against the PTO. This will strongly dampen applicants’ ability to proceed with Section 145 actions and will have a pronounced chilling effect on future applicants considering whether to file future Section 145 actions. It would more than double applicants’ costs of such proceedings because the PTO’s demand for attorney fees was nearly double its demand for expenses and because the PTO would have no incentives to contain or limit the resources it allocates for such proceedings. It is irrelevant whether in fact the PTO will overload costs – the

prospect and possibility that it may do so, would be a sufficient financial deterrent with real chilling effects.

Should this Court adopt the PTO's interpretation of Section 145 and reverse the Federal Circuit, it will adversely impact patent applicants with limited means such as startup and small business inventors by deterring their access to district court. See I.C *infra*.

I.B.2 Joint stipulated and settlement remands

The table in the Appendix also shows two cases wherein the applicant proffered new evidence that was not considered in prosecution and the PTO agreed to enter and consider the new evidence in continued prosecution in the Office rather than go through the trial in district court. Those were District of Columbia cases *Protherics, Inc. v. Kappos*, 09-cv-1545 and *Keurig, Inc. v. Kappos*, 09-cv-2353. In these cases, the parties jointly stipulated a dismissal and a remand to the PTO. These examples show an important salutary feature of the availability of Section 145: but for its availability, the PTO would have no reason to accommodate the applicant. Applicants will have no power to compel consideration of new evidence and the patent rights for their invention will vanish. The mere *prospect* of a binding judgement against the PTO creates sufficient efficiencies for both parties, without incurring further litigation costs.

Other cases where the parties agreed to terminate proceeding and return to the PTO for continued prosecution of the application are shown in the table for the Eastern District of Virginia cases *BTG Int'l Ltd. v. Kappos*, 12-cv-0682, *Mandigo et al v. Kappos*, 12-cv-1193, and *Intellectual Ventures I LLC v. Rea*, 13-cv-0534. Here, the matter was not necessarily the introduction of new evidence but rather the PTO's intransigence in its Board of Appeal findings and on procedural matters. It is evident that the PTO perceived substantial risk (as did the applicant) that the judgement of the court may not be in their favor. But for the availability of Section 145 proceeding, the applicants would not have that second chance for vindication of their right.

Applicants can also beneficially use Section 145 proceedings as a check on PTO conduct during prosecution and to improve efficiencies even in the direct appeal path under Section 141. The case *Protherics, Inc. v. Kappos*, 1:09-cv-1545 (D.D.C. 2010) listed in the Appendix is on point. It involved protracted prosecution at the PTO of Application S/N 08/405,454, which after final rejection went on appeal at the Board of Appeals. The Board, however, refused to consider certain declarations offered by the applicant in support of patentability and affirmed the examiner's rejection. `454 Prosecution History, 03-30-06. Protherics appealed from the Board decision directly to the Federal Circuit under Section 141. *Id.* 05-26-06. The Federal Circuit reversed, ruled that the Board erred in refusing to consider the declarations, and remanded to the PTO. *Id.* 08-29-07. On remand, the Board

reconsidered the subject declarations, as it was instructed to, but again affirmed the examiner, *Id.* 06-15-09. Protherics, with additional evidence for the record, did not opt for the direct appeal under Section 141 (again), but on this occasion, rather chose the Section 145 civil action route. Rather than litigate the case to a judgement, the PTO moved to remand and consider the new evidence, a motion Protherics did not oppose, resulting in the joint stipulated remand. After further exchanges at the PTO, the examiner allowed the claims and the case issued as U.S. Pat. No. 8,048,414 on November 1, 2011.

This example shows how ineffective direct appeals to the Federal Circuit under Section 141 may be—and how crucial the availability of district court action under Section 145 can be. This is because those appeals to the Federal Circuit do not prevent the PTO from cycling back applications that were on appeal, reopening prosecution and finding new grounds of rejection, effectively back-filling their prior arguments until the applicant gives up. In contrast, Section 145 helps put an end to such vicious cycles by obtaining a binding *judgement* that the “applicant is entitled to receive a patent for his invention.” § 145.

In *Protherics* , the applicant tried the Section 141 appeal path, with Sisyphean results. Without resorting to Section 145 action and checking the PTO’s endless reworked prosecution, the applicant may not have been able to obtain finality and obtain a valuable patent.

The fact that this judicial safety net exists for *every* applicant, instills expectations both at the PTO and with applicants that improve the efficiency and accountability in the examination process, even when Section 145 proceedings are not invoked. The parties' knowledge that the applicant can file a Section 145 action to displace an otherwise intransigent PTO prosecution, "keeps the PTO honest." All applicants benefit from this – not only those few who file such civil actions.

It appears, however, that just as the prospect of PTO fee shifting after *Shammas* became sufficiently risky for some applicants to voluntarily drop their case, so has the PTO ceased entering into joint stipulations for remand. As the table in the Appendix shows, there were five out of eleven cases that terminated in stipulated or settlement remand before the *Shammas* decision, but none after that decision. This strongly suggests that after the *Shammas* decision, the balance of power has shifted to the detriment of applicants and that this is but a prelude to a major stacking of the deck against applicants, should this Court reverse the decision of the Federal Circuit.

I.C Small Entities Resort to Section 145 Proceedings Disproportionately and Will Suffer Much Prejudice Should this Court Reverse

Small businesses are the lifeblood of the U.S. economy: they create *two-thirds of net new jobs* and

drive U.S. innovation and competitiveness.⁵ Small businesses produce *16 times more* patents per employee than large patenting firms.⁶ As the table in the attached Appendix shows, of all 21 civil actions filed under Section 145 during the last decade, ten were filed by small entities, a share of about 48%. This share is disproportionately higher than the 11% share of small entities in the filing of all administrative appeals that lead to such civil actions. *See* Appendix. This means that upon conclusion of an *ex parte* appeal at the PTO, small entities are 4.3 times more likely to be “dissatisfied with the decision of the [Board of Appeals]” than other (mostly large) entities, so as to require civil actions under Section 145.

The Federal Circuit was correct in observing that “the American Rule preserves access to district courts for small businesses and individual inventors seeking to avail themselves of § 145’s benefits.” *NantKwest, Inc. v. Iancu*, 989 F.3d 1177, 1181 (Fed. Cir. 2018) (en banc) (Pet. App. 5a). The only *Amicus Curiae* in support of Petitioner proclaimed this Federal Circuit observation wrong. Instead, it advanced a conclusory statement: “Actions under § 145 thus have been and will likely continue to be the domain of well-financed industries.” R Street

⁵ SBA Office of Advocacy, “Small Businesses Generate 44 Percent of U.S. Economic Activity,” [Release No. 19-1 ADV \(Jan 30, 2019\)](#).

⁶ A. Breitzman, and D. Hicks, "An Analysis of Small Business Patents by Industry and Firm Size" SBA Study (2008). At http://rdw.rowan.edu/cgi/viewcontent.cgi?referer=&httpsredir=1&article=1011&context=csm_facpub

Inst. Br. 20-21. The evidence in the Appendix proves this statement to be contrary to plain fact.

Unfortunately, should this Court reverse, that *amicus* statement will come true, to the great detriment of small entities who will suffer much prejudice. In that case, actions under § 145 will indeed become only “the domain of well-financed industries.”

II. THE PTO’S POSITION HERE IS BUT THE LATEST OF DECADES OF ATTEMPTS TO END OR CURTAIL SECTION 145 PROCEEDINGS

The PTO’s aversion to suit in district court, with attendant objective adjudication on all competent evidence and that concludes in a binding judgement in district court, is not new and greatly informs the present controversy. This is not personal to any head of the Patent Office—it is an institutional aversion to *de novo* review of Patent Office decision-making. Throughout more than a century, the Patent Office has embarked on campaigns to suppress, curtail, and indeed outright abolish altogether the right of aggrieved applicants to redress against the Patent Office through adversarial adjudication. When seen in this long historical perspective, the theme that emerges makes clear that much of the PTO’s arguments and explanations in this case are pretextual. The following is a brief summary of those key events.

1912

In 1912, then Chairman of the House Committee on Patents, William A. Oldfield, introduced H.R. 23417, 62 Cong. 2nd Sess. (April 16, 1912) proposing sweeping changes in patent law. Then Commissioner of Patents, Edward B. Moore, was said to have crafted the bill. “Fights new patent bill,” *The Washington Post*, (May 26, 1912) at E4 (describing opposition to the Oldfield bill). The bill consisted of a full rewrite of all sections of the patent statute, with particular omission (repeal) of the predecessor of Section 145 – the Revised Statute § 4915 providing for civil actions in district court. Ultimately, H.R. 23417 never passed in the House.

1926

In a hearing before Congress, then Patent Office Commissioner Thomas E. Robertson testified on proposed revisions of the patent appeal process. He strongly advocated outright repeal of R.S. § 4915 because he felt that there already was an appeal to a court in other parts of the statute. *To Amend Section 52 of Judicial Code and Other Statutes Affecting Procedure in Patent Office: Hearings on H.R. 6252 and H.R. 7087 before the House Committee on Patents, 69th Cong., 1st Sess. (February 4, 1926) at 78* (“With the idea that the combined wisdom of the bar is greater than the wisdom of any commissioner, but in this particular matter I would state that, following a practice of 30 years as a patent lawyer, I have studied the question for five years as commissioner, that I feel constrained to take a position in opposition to the bar, not to all the bar, because a strong minority of the bar considers that my position is sound. *I would absolutely repeal 4915.*”) (Emphasis added).

1943

Less than a week after President Franklin D. Roosevelt gave his “A Date Which Will Live in Infamy”-speech, he established by executive order the National Patent Planning Commission (“NPPC.”). Ex. Order No. 8,977, (December 12, 1941); *see* 6 *Fed. Reg.* 6441 (December 17, 1941), (“EO”). Among its provisions, the EO authorized the Commission “to conduct a comprehensive survey and study of the American patent system, and consider whether the system now provides the maximum service in stimulating the inventive genius of our people in evolving inventions and in furthering their prompt utilization for the public good; whether our patent system should perform a more active function in inventive development; whether there are obstructions in our existing system of patent laws, and if so, how they can be eliminated; to what extent the Government should go in stimulating inventive effort in normal times; and what methods and plans might be developed to promote inventions and discoveries which will increase commerce, provide employment, and fully utilize expanded defense industrial facilities during normal times.” *Id.* § 2. The EO also directed the Commissioner of Patents and his office to assist the Commission and to call upon other offices and agencies of the Government for that purpose. *Id.* § 5.

Consequently, then Commissioner of Patents Conway P. Coe is presumed to have had an influential role in crafting the NPPC’s recommendations on patent office appeals, and having been appointed executive secretary of the NPPC, he also had procedural access for doing so. In

its first report forwarded by the President to Congress, the NPPC noted the separate paths available to applicants after the Patent Office denial of their claim for a patent: either by an appeal to the Court of Customs and Patent Appeals ("CCPA"), (as in present Section 141) or by civil action to obtain a patent in district court (as in present Section 145). The NPPC stated:

The existence of these two parallel remedies is largely the result of historical accident, and does not appear to be justified or required by any fundamental considerations. The Commission is not impressed with the necessity for indefinitely perpetuating this anomalous situation, and it believes that one or the other of these alternatives should be discontinued.

From the standpoint of the litigants one of the principal advantages in electing to go to the District Court is that in practice it affords an opportunity to try *de novo* a case in which the applicant has not made a full or complete record in the Patent Office. This particular argument in support of that alternative does not appeal strongly to the Commission, especially where, as here, the case has already gone through the stage of an intermediate statutory appeal to the Board of Appeals. The Commission understands that the Patent Office procedure is liberal in giving a diligent applicant the fullest opportunity to present his case, but if the procedure is in any way inadequate in that respect the remedy should

be applied at that point and not in the appellate stage.

U.S. National Patent Planning Commission. *The American Patent System*: Message from the president of the United States transmitting the report of the National Patent Planning Commission, 78th Cong. 1st Sess. H. Doc. 239, at 7-8, Washington, D. C. (June 18, 1943). Here too, we find the mischaracterization of the civil action for *de novo* adjudication as an “appellate” review. The Commission’s recommendation was therefore “that in *ex parte* cases, the jurisdiction of the [CCPA] to review the denial by the Patent Office of an application for patent should be made exclusive, and that the present concurrent jurisdiction of the district courts be abolished.” *Id.*, at 8. Commissioner Coe communicated this recommendation in his annual report. See *Annual Report of the Commissioner of Patents to the Secretary of Commerce for the Fiscal Year Ended 1943*, at 3.

1944

The Patent Office did not spare opportunities to repeat its advocacy for repealing the statute authorizing civil actions against it in district court. In 1944, Commissioner Coe sent his Assistant Commissioner of Patents to testify on pending patent legislation. With respect to such civil actions, he testified: “I am persuaded that neither this nor any similar measure should be enacted into law, and that it would be far better to repeal section 4915 R. S. in its entirety than to enact this proposed legislation, since there is an appeal from Patent Office decisions to the [CCPA].” *Revision of Patent*

Office Interference Practice: Hearings before the House Committee on Patents on H. R. 3264, 78th Cong. 2nd Sess. Statement of Conder C. Henry, Assistant Commissioner of Patents, at 25, (February 24, 1944).

1945

In the following year, in its 3rd and final report, the NPPC called the availability of the civil action route a “defect” and reiterated:

“At present, when the Patent Office denies the grant of a patent, the applicant has avenues of recourse to either of two courts. This is at once a complexity and a defect. We are accordingly prompted to renew our suggestion that the [CCPA] be designated as the sole tribunal having authority to review the decisions of the Patent Office in refusing the issuance of patents.”

U.S. National Patent Planning Commission. *Third Report on the American Patent System*: Message from the President of the United States, transmitting the third report of the National patent planning commission. 79th Cong. 1st Sess. H. Doc. No. 28, at 8, Washington D.C. (September 6, 1945).

1979

When Congress considered new legislation for reexamination of issued patents, the issue of whether patent owners would be able to challenge adverse *ex parte* reexamination decisions in district court pursuant to § 145 had to be resolved. Senator Bayh introduced a bill, S 1679, that provided no such right to civil action by the patent owner. The bill

proposed to add Section 307 to Title 35 providing only: “§307. **Appeal.** The owner of a patent involved in a reexamination proceeding under this chapter may appeal from a final decision in such proceeding adverse to the patentability of any claim, or amended claim, of the patent.” S. 1679, Sec. 2, 96th Cong. 1st Sess. (August 3, 1979). While the language of the bill was silent as to which tribunal the patent owner could “appeal,” it certainly ruled out any civil action under Section 145 because such is not an “appeal.”

In testifying at a Congressional hearing on S. 1679, then Commissioner of Patents, Sidney Diamond, generally supported the bill stating: “I cannot overemphasize the importance of establishing a viable reexamination system. The general thrust of S 1679 parallels the thinking of the administration on this subject.” *Patent Reexamination: Hearing before the Senate Committee on the Judiciary on S 1679, 96th Cong. 1st Sess. Testimony of Sidney Diamond, Commissioner, U.S. Patent & Trademark Office, at 16 (November 30, 1979).*

The deficiency in providing for proper judicial review in S 1679 was corrected by House bill HR 6933, the final revision of which was enacted as the reexamination statute in 1980. It provided in relevant part:

"306 **Appeal.** The patent owner involved in a reexamination proceeding under this chapter may appeal under the provisions of section 134 of this title, and may seek court review under the provisions of sections 141 to 145 of this title, with respect to any decision adverse

to the patentability of any original or proposed amended or new claim of the patent.”

HR 6933, 96th Cong. 2nd Sess. (November 19, 1980). This bill was in fact advanced by the Administration and the PTO deserves credit for accepting patent stakeholders’ views on availability of civil actions in order to obtain consensus for passage. Congress enacted the reexamination statute in the Patent and Trademark Law Amendments Act, Pub. L. 96-517, 94 Stat. 3015 (1980) (codified at 35 U.S.C. §§ 302-07(1986)). As shown below, however, the PTO would fight another day in attempts to avoid having to defend Section 145 actions.

1994

At the urging of the PTO, Senator DeConcini introduced in the Senate the Reexamination Reform Act of 1994, S 2341. *The Patent Prior User Rights Act and the Patent Reexamination Reform Act*. Hearing before the Senate Judiciary Subcommittee on Patents, Copyrights, and Trademarks, 103rd Cong. 2nd Sess. on S. 2272, and S. 2341, Statement of Bruce Lehman, Commissioner, Patent & Trademark Office, at 3 (August 9, 1994) (“The second bill that you have introduced, Mr. Chairman, *at the request of the Administration, and we greatly appreciate that*, is S. 2341.”) (Emphasis added). The bill amended Sections 145 and 306 to repeal patent owners’ right to challenge adverse reexamination decisions in civil actions under Section 145. S 2341, Sec. 3, 103rd Cong. 2nd Sess. (July 29, 1994).

1995

In 1995, on behalf of the PTO, Congressman Moorhead introduced HR 1732 with reexamination

provisions amending 35 U.S.C. §§ 134 and 145 that precluded any civil action on adverse *ex parte* reexamination decisions in district court pursuant to § 145. HR 1732, 104th Cong. 1st Sess. (May 25, 1995). *Patents legislation*: Hearings before the House Judiciary Subcommittee on Courts and Intellectual Property, 104th Cong. 1st Sess. Statement of Bruce Lehman, Commissioner, Patent & Trademark Office, at 39 (June 8, 1995) (“We thank the Chairman and the Ranking Minority member for introducing this legislation on behalf of the Administration.”)

1999

During consideration of the 1999 amendments to the patent act, the House Judiciary Subcommittee on Courts and Intellectual Property held a hearing on the Committee Print of the “American Inventors Protection Act” (“AIPA”, later introduced as HR 1907) on March 25, 1999. Todd Dickinson, then Acting Assistant Secretary of Commerce and Acting Commissioner of Patents and Trademarks, referred to Title V of the bill and told the Subcommittee: “Title V, the ‘Patent Litigation Reduction Act,’ is appropriately named and is *strongly supported* by the Administration.” *Patent Reform and the Patent and Trademark Office Reauthorization for Fiscal Year 2000*. Hearing before the House Judiciary Subcommittee on Courts and Intellectual Property. 106th Cong. 1st Sess. at 58 (March 25, 1999) (emphasis added). But Title V of the bill proposed to amend § 306 by eliminating the reference to § 145. *Id.* at 114. See American Inventors Protection Act of 1999, H.R.1907 106th Cong. 1st Sess. As introduced (May 24, 1999); *see also* H. Rep. 106-287(I), at 59-60

(Aug. 3, 1999) (describing proposed changes to § 306).

Because the AIPA's 1999 amendments to the judicial review provisions of the reexamination statute were ambiguous, there was for many years a dispute as to whether civil actions in district court were precluded for only one or both *ex parte* and *inter partes* reexamination proceedings. See Charles E. Miller and Daniel P. Archibald, "Interpretive Agency-Rulemaking vs. Statutory District Court Review-Jurisdiction In *Ex Parte* Patent Reexaminations," 92 *J. Pat. & Trademark Off. Soc'y* 498 (2010). It was not until after Congress amended the language again in 2011 that the Federal Circuit interpreted the AIPA of 1999 (pre-2011) as having eliminated the right of the patent holder in reexamination to challenge the PTO decision in a civil action under Section 145. *In re Teles AG and Sigram Schindler*, 747 F.3d 1357 (Fed. Cir. 2014).

2011

Congress enacted the Leahy-Smith America Invents Act, Pub. L. 112-29, 125 Stat. 284 (September 16, 2011) ("AIA"), which among other things, removed any ambiguity ensuring that no reexamination proceeding entitles a patent holder to challenge the PTO decision in a civil action in district court. See, AIA Section 6(h)(2)(A) amending 35 U.S.C. § 306 by striking "145" and inserting "144". See Miller and Archibald (2010) *supra*.

Moreover, the AIA introduced two new procedures for contested proceedings, namely, Inter Partes Review ("IPR") under Sec. 6(a) (revising

Chapter 31 of title 35 U.S.C.), and Post-Grant Review (“PGR”) under Sec. 6(d) (adding new Chapter 32 of title 35 U.S.C.). New § 319 in Chapter 31 and new § 329 in Chapter 32, together with 35 U.S.C. § 141 as revised under Sec. 7(c)(1), preclude district court review of PTO decisions in these proceedings, making the Federal Circuit the exclusive reviewing tribunal of IPR and PGR decisions.

2012

The PTO failed to persuade the Federal Circuit and the U.S. Supreme Court in *Kappos v. Hyatt* (2012), to allow the exclusion of evidence in Section 145 civil actions that could have been adduced and addressed during the PTO proceeding. The PTO’s defeat was a watershed event, affirming and clarifying the full scope of the rights under Section 145. Following this defeat, the PTO in 2013 embarked on a two-prong campaign, mounting both a direct frontal attack attempting to repeal Section 145 and a financial deterrence attack for marginalizing it.

2013

The PTO mounted a lobbying effort in 2013 to repeal Section 145 altogether. Rep. Bob Goodlatte (R-Va) introduced a “discussion Draft” bill on May 23, 2013 that repealed Section 145.⁷ It was later introduced formally under the guise of a “technical

⁷ “Congressman Goodlatte Proposes Patent Reform to Eliminate Section 145 Actions and Exelixis I-Type Patent Term Adjustment,” *Foley and Lardner Blog* (June 3, 2013) www.foley.com/en/insights/publications/2013/06/congressman-goodlatte-proposes-patent-reform-to-el

amendment” to the AIA as Section 9(a) of the Innovation Act, HR 3309, 113th Cong. 1st Sess. (October 13, 2013). During a debate on the House floor Rep. Goodlatte explained that the bill was “strongly supported by the Patent Office,” Cong. Rec. House, H7545 (December 5, 2013). He parroted the PTO’s familiar rationale for the repeal:

Repeal is “necessary because of the Supreme Court’s recent decision in *Kappos v. Hyatt* which construed section 145 to allow an applicant to evade substantive patent examination in the Patent Office and to instead present his evidence of patentability for the first time in Federal district court. A district judge would then be required to make *de novo* findings of patentability.” *Id.*

But this was precisely the argument the PTO attempted to use unsuccessfully in the previous year before this Court:

“The [PTO] warns that allowing the district court to consider all admissible evidence and to make *de novo* findings will encourage patent applicants to withhold evidence from the PTO intentionally with the goal of presenting that evidence for the first time to a non-expert judge. We find that scenario unlikely. An applicant who pursues such a strategy would be intentionally undermining his claims before the PTO on the speculative chance that he will gain some advantage in the § 145 proceeding by presenting new evidence to a district court judge.”

Kappos v. Hyatt, 566 U.S. at 445. The provision repealing Section 145 was subsequently removed from the bill by an amendment that passed on the House floor with a strong majority (260:156). See Amendment No. 7, *Id.*, H7545-6, H7554-5.

In parallel with its effort to repeal Section 145, the PTO has also created financial-deterrence plainly aimed at marginalizing inventors' ability to exercise their right under Section 145. The PTO sought reimbursement of its attorney fees, as it does here, in a trademark case by a motion for expenses under 15 U.S.C. § 1071(b)(3), the trademark counterpart of Section 145. *Shammas v. Focarino*, Case 1:12-cv-01462, Doc. 45 (Ed.Va. Nov. 13 2013). The Fourth Circuit held in favor of the PTO, recognizing that PTO's attorney's fees are part of "all expenses of the proceedings." *Shammas v. Focarino*, 784 F.3d 219, (4th Cir. 2015).

III. THE PTO'S TIMING FOR SHIFTING FEES IN SECTION 145 PROCEEDINGS MAKES NO SENSE

The PTO advances two novel interpretive theories in this case and pins the Office's reason for advancing them only now on recent fee legislation in the AIA.

First, the PTO argues that fee shifting under § 145 is necessary to "protect[] the USPTO's resources by shifting the additional expense of a civil action and possible trial to the applicants who opt for those proceedings." Pet. Br. 25. The PTO reasons

that it seeks to ensure “that other persons who use the USPTO’s services—who must pay fees designed to recoup the agency’s operational costs, [] — are not effectively compelled to subsidize Section 145 plaintiffs.” Pet. App. 16. In support of this new theory arriving after 170 years of not seeking recoupment of attorney’s fees in such actions, the PTO half-heartedly points back to its obligation under the fee-setting authority in the AIA enacted in 2011. The PTO explains that Congress particularly “directed the USPTO to set and charge fees for its services at the level that is estimated to be necessary to cover the agency’s aggregate operating expenses.” Pet. Br. 27 (citing AIA § 10). The PTO further explained that “[a]ccordingly, the agency has established fees that applicants for patents and trademarks must pay for particular services, including various stages of the examination and registration processes.” *Id.*

Second, the PTO leaps to another interpretive theory in this case: that judicial “trial-court proceedings” *outside the agency*, after close of prosecution, after a decision by the Board of Appeals, i.e., *after* the PTO issues its final agency action, are “part of the patent-application process.” Pet. Br. 15. And so by noting that “the application process has long been funded by user fees to cover the agency’s expenses, including personnel expenses,” the PTO concludes that Section 145 plaintiffs should cover PTO’s legal “personnel expenses.” *Id.*

Assuming *arguendo* that these two interpretive theories are correct, the PTO’s explanations that the legislative condition for

advancing them arose only now, simply make no sense because none of the conditions are new. The PTO became a fully user-fee-funded agency *not under the AIA*, but under the Omnibus Budget Reconciliation Act of 1990 (OBRA), Pub. L. 101-508, 104 Stat. 1388 (5 Nov. 1990). OBRA created a surcharge on certain patent fees to cover PTO's budgetary shortfalls and in the following year, based on PTO inputs on costs, Congress adjusted most fees by enacting the Patent and Trademark Office Authorization Act of 1991, Pub. L. 102-204, 105 Stat. 1637-1639 (Dec. 10, 1991). In that Act, Congress also authorized the PTO to set "fees for all other processing, services, or materials relating to patents not specified in this section *to recover the estimated average cost to the Office* of such processing, services, or materials." 35 U.S.C. § 41(d) (1992) (emphasis added).

Since then, with inputs from the PTO, Congress changed user fees seven times.⁸ While the AIA was one of those seven instances of setting fees by statute, the AIA in another section merely gave the PTO expanded authority to adjust and reset those fees. However, the requirement that user fees

⁸ See Pub. L. 102-444, § 1, 106 Stat. 2245 (Oct. 23, 1992); Pub. L. 103-465, title V, §§ 532(b)(2), 533(b)(1), 108 Stat. 4986, 4988 (Dec. 8, 1994); Pub. L. 105-358, § 3, 112 Stat. 3272 (Nov. 10, 1998); Pub. L. 106-113, div. B, § 1000(a)(9) [title IV, §§ 4202, 4605(a), 4732(a)(5), (10)(A), 4804(d)(1)], 113 Stat. 1536, 1501A-554, 1501A-570, 1501A-582, 1501A-589 (Nov. 29, 1999); Pub. L. 107-273, div. C, title III, § 13206(b)(1)(B), 116 Stat. 1906 (Nov. 2, 2002); Pub. L. 112-29, §§ 11(a)-(e), 20(j), 125 Stat. 320-323, 335 (Sept. 16, 2011); Pub. L. 112-211, title II, § 202(b)(1), 126 Stat. 1535 (Dec. 18, 2012).

fully fund the operation of the PTO has been in place for nearly three decades. Therefore, the predicates for the PTO's fee-shifting theory in this case have been in place all that time. Yet, at no time since the enactment of OBRA in 1990, nor during the seven subsequent PTO funding enactments, did the PTO raise its novel fee-shifting theory. The PTO's explanation as to why it chose to do so now simply makes no sense.

IV. THE PTO'S COST ARGUMENT IS CONTRADICTED BY DATA ON SECTION 145 PROCEEDINGS

In its motion for expenses in Respondent's underlying case in the district court, the PTO represented that on average, it devotes the services of about one attorney and one paralegal annually for civil actions under both Section 145 and its trademark counterpart, 15 U.S.C. § 1071(b). JA 36, note 4. This is consistent with the average rate of about two cases filed under Section 145 per year as shown in the Appendix attached hereto. Based on the salary of the relevant legal professionals that the PTO disclosed in that motion (JA 37), its annual expenditures on such cases do not exceed \$250,000 for both patent and trademark civil actions. Assuming conservatively that all such expenditures are on Section 145 actions, they amount to less than **0.009%** of the PTO's total annual expenditures on patent operations in that year. *See USPTO Fiscal Year 2017 Congressional Justification* (February 9, 2016), at 147 (showing total patent program obligations of \$2.84 Billion in FY 2015). Because the PTO sets user fees based on its aggregate expenses,

the 0.009% incremental fee cost to all patent users would be so small as to be within the ***rounding error of pennies***.

Despite these *de minimis* “subsidies,” the PTO nevertheless proposes to selectively single out and deprive less than a handful of Section 145 plaintiffs per year of their ability to sustain their cause of action, but ignores similar “subsidies” for Section 141 appeals and APA actions that dwarf its costs in Section 145 proceedings. Compare *Id.* (\$18.6 million for legal services in patent operations), to less than \$0.25 million for Section 145 civil actions. The PTO has no qualms about user-fees “subsidizing” its preferred judicial review proceedings at the Federal Circuit but strenuously resists doing so on a much smaller scale in civil actions it disfavors.

In conclusion, the PTO’s argument cannot be reasonably seen other than as pretext for its real purpose: deterring and suppressing use of Section 145 proceedings in favor of Section 141 appeals in the Federal Circuit, where the PTO enjoys deference and the benefits of a substantial evidence standard of review of findings, and preclusion of new evidence.

If it prevails in its interpretation in this case, one can foresee the PTO asserting further expansion of “all expenses of the proceedings” to costs of agencies and departments other than the PTO because the statute does not limit “all expenses” borne by the government only to PTO “expenses.” For example, “expenses” of the Department of Justice attorneys litigating these civil cases could be charged. If the PTO prevails in this case, then

applicants will have even less ability to predict the cost of 145 actions.. If the PTO prevails in this case, we expect that Section 145 proceedings would virtually cease to be a viable option for small entities.

In any event, as shown below, there can be little doubt that the benefits to *all* applicants of ensuring affordable access to Section 145 civil actions far outweigh any minute cost increment already built into all users' fees.

CONCLUSION

For the foregoing reasons, the judgment of the Court of Appeals for the Federal Circuit should be affirmed to ensure the constitutional protections and fair access to the courts to which patent applicants are entitled.

Respectfully submitted,

IEEE-USA

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APPENDIX

APPENDIX**Civil Actions under 35 U.S.C. § 145
(2009-2019)****Sources and Methods**

The list of civil actions under Section 145 in the accompanying table was obtained by searching the Public Access to Court Electronic Records (“PACER,” www.pacer.gov) system for the district courts in the District of Columbia (“DDC”) and the Eastern District of Virginia (“EDVA”). The filing date range was set from January 1, 2009 to July 30, 2019 and selection in the “Nature of Suit” menu was set to “830 (Patent).”⁹ All results from the DDC that were filed after 2012 were discarded because under the AIA, post-2012 Section 145 actions were permitted only in EDVA.

Next, all results that did not name a PTO defendant were discarded. The criterion for a PTO defendant during 2009-2019 was the names from that period of PTO Directors Doll, Kappos, Rea, Lee, Matal, Iancu, and Patent Commissioners Stoll, Focarino, and Hirshfeld, who might have been named in an Acting Director capacity. Complaints in the remaining cases were read and non-§ 145 cases (typically patent term adjustment cases under 35 USC § 154 and APA cases under 5 U.S.C. § 706) were discarded.

⁹ The PACER search menu also provides a further refinement by “Cause of Action” set to “35:145,” but it proved unreliable as a few Section 145 cases had no Cause of Action entry.

There were 21 Section 145 cases found, as listed in the accompanying table. Each case's complaint identified the application serial number involved and those are shown in the "App. Ser. No." column of the accompanying table. For each such application, the PTO's Public Patent Application Information Retrieval ("PAIR")¹⁰ system was used to obtain the prosecution history of the application. Using the "Image File Wrapper" tab, the entity status of the application was determined as of the filing of the Section 145 action by inspecting the latest occurrence prior to the action, of a fee payment. Fee payment records such as filing receipts for petitions, Fee Worksheets (Form SB06) filed with additional claims, or with an appeal, identify the entity status of the applicant whether, large, small, or micro entity, for determining the fee amount. The findings are shown in the table under the column heading "Entity Status."

Records for two of the applications – those of BTG International Ltd. ("BTG"), and of Audrey Alberts ("Alberts") – were not available on Public PAIR, almost certainly because the applicants elected non-publication under 35 U.S.C. § 122(b)(2)(B). To determine BTG's status at the time it filed its civil action in 2012, a search in PTO's public record for a patent issued in 2012 and assigned to BTG found U.S. Pat. No. 8,235,935 for which an issue fee of a *large entity* was paid on July 9, 2012. Alberts, however, has no published patent applications, which necessitated a personal call to her in California, during which she indicated that

¹⁰ See <http://portal.uspto.gov/pair/PublicPair>

her '667 application had a *small entity* status throughout its life including at the time of the civil action. This is reflected in the table.

The PTO recognizes the size of an applicant (annual revenue, number of employees) as a determinant of the fees it must pay. 37 C.F.R. § 1.27 defines the requirement for qualifying as a small entity, which receives a 50% discount on user fees. As the table shows, of the 21 civil actions filed under Section 145 during the last decade, 10 were filed by small entities, a share of about 48%. This share is disproportionately higher than the share of small entities in administrative appeals that lead to such civil actions. For example, in its fee-setting process after the enactment of the AIA, the PTO estimated the number of administrative appeals reaching the briefing stage at the Board of Appeals in 2013, as 13,160, 1,729, and 777, filed by large, small and micro entities respectively.¹¹ The corresponding share of small entities in all appeals is therefore $100 \times 1729 / (13160 + 1729 + 777) = 11\%$. This means that upon conclusion of appeal at the PTO, small entities are 4.3 times more likely to require civil actions under Section 145.

The table for all civil actions under Section 145 follows:

¹¹ PTO's *Aggregate Revenue Table, Fees Set at Cost Recovery*, www.uspto.gov/sites/default/files/aia_implementation/aia_section_10_agg_rev_cost_recovery.pdf. See aggregate workload for FY 2013, fee codes 1402, 2402, and 3402 respectively.

Civil Actions under 35 U.S.C. § 145 Filed During 2009-2019

District Court	Case No.	Parties	Filed	Closed	Duration (days)	App. Ser. No.	Entity Status	Early Disposition Note
DDC	09-cv-1545	Protherics, Inc. v. Kappos	14-Aug-09	17-May-10	276	08/405,454	Large	11-May-10 Joint stipulated remand - PTO to consider new evidence
DDC	09-cv-2353	Keurig, Inc. v. Kappos	11-Dec-09	27-Sep-11	655	10/658,925	Large	27-Sep-11 Joint stipulated remand - PTO to consider new evidence
DDC	10-cv-1676	Astrazeneca AB v. Kappos	1-Oct-10	6-Jan-15	1558	10/240,656	Large	
DDC	10-cv-1727	Alberts v. Kappos	12-Oct-10	18-Jan-13	829	10/922,667	Small	
DDC	11-cv-0944	Biota Scientific Mgmt. Ltd. v. Kappos	20-May-11	14-Aug-12	452	08/737,141	Large	
EDVA	12-cv-0440	Johnston v. Rea	23-Apr-12	9-Apr-13	351	11/374,563	Small	
EDVA	12-cv-0641	Panchev et al v. Kappos	11-Jun-12	25-Jun-13	379	10/496,322	Small	
EDVA	12-cv-0682	BTG International Ltd. v. Kappos	21-Jun-12	15-Apr-13	298	08/211,704	Large	12-Apr-13 Joint Stipulated dismissal
EDVA	12-cv-1193	Mandigo et al v. Kappos	24-Oct-12	21-Dec-12	58	11/588,111	Large	18-Dec-12 Joint stipulated remand
EDVA	13-cv-0534	Intellectual Ventures LLC v. Rea	30-Apr-13	13-Jan-14	258	09/553,337	Large	13-Jan-14 Joint settlement to remand
EDVA	13-cv-1566	ConkWest & Nantkwest v. Focarino	20-Dec-13	2-Sep-15	621	10/008,955	Large	
Shammus v. Focarino , 784 F.3d 219 (4th Cir. 2015)								
Decided 29-Apr-15								
EDVA	14-cv-1723	Bernstein et al v. Lee	17-Dec-14	10-Jun-15	175	12/761,953	Small	9-Jun-15 Applicant's Voluntary Dismissal
EDVA	15-cv-0630	Safwat v. Lee	15-May-15	8-Sep-15	116	12/589,904	Small	4-Sep-15 Applicant's Voluntary Dismissal
EDVA	15-cv-0963	Realvirt, LLC v. Lee	29-Jul-15	19-Jul-16	356	07/773,161	Small	
EDVA	15-cv-1607	Taylor v. Matal	2-Dec-15	10-Aug-17	617	11/807,860	Small	
EDVA	15-cv-1656	NextPat Limited v. Lee	16-Dec-15	29-Feb-16	75	11/441,464	Large	26-Feb-16 Applicant's Voluntary Dismissal
EDVA	15-cv-1684	Taylor v. Lee	18-Dec-15	10-Aug-17	601	11/391,501	Small	
EDVA	16-cv-0012	Taylor v. Lee	5-Jan-16	10-Aug-17	583	10/425,553	Large	
EDVA	16-cv-1580	Halozyme, Inc. v. Lee	19-Dec-16	31-Jul-18	589	11/238,171	Large	
EDVA	17-cv-0482	Swartz v. Lee et al	21-Apr-17	22-Aug-17	123	12/932,058	Small	
EDVA	19-cv-0881	Shiuey et al v. Iancu	2-Jul-19			13/189,337	Small	