

NYIPLA PTAB COMMITTEE

Examining Faulty Rulemaking Challenges
in the Federal Circuit's Recent
Apple v. Vidal Decision

April 18, 2023

Kenneth R. Adamo*

Law Offices of KRAdamo
Chicago, IL 60654
kradam23@gmail.com



*Member, Illinois, New York, Ohio and Texas Bars. This presentation reflects only the present considerations and views of the author, which should not be attributed to the Law Office of KRAdamo or any of his or its present or former clients.

Fifteen Hundred and Twenty-two

NYIPLA

The New York Intellectual Property Law Association®

PTAB Committee

Disclaimer

The following presentation reflects the personal opinions of its authors and does not necessarily represent the views of their respective clients, partners, employers or of the New York Intellectual Property Law Association, the PTAB Committee, or its members.

Additionally, the following content is presented solely for the purposes of discussion and illustration, and does not comprise, nor is to be considered, as legal advice.

In re Rudy (2020) & Cleveland Clinic (2019)

USPTO Guidance is (of course) not ultimately binding

In re Rudy, 881 F.3d 1360 (Fed. Cir. 2020):

- "We agree with Mr. Rudy that the Office Guidance is not, itself, the law of patent eligibility, does not carry the force of law, and is not binding in our patent eligibility analysis." *Id.* at 1382.
- "To the extent the Office Guidance contradicts or does not fully accord with our caselaw, it is our caselaw, and the Supreme Court precedent it is based upon, that must control." *Id.* at 1383 (citing *Cleveland Clinic*).

Cleveland Clinic Found. v. True Health Diagnostics LLC, 760 F. App'x. 1013, 1021 (Fed. Cir. 2019) (non-prec.):

- CAFC affirmed that certain diagnostic claims were invalid despite similarity to Example 29 in the (then-current) Office Guidance that described a type [of] diagnostic method claim as valid.
- "Example 29-Claim 1 is **strikingly similar** to claim 1 of U.S. Patent 6,258,540 at issue in ***Ariosa***..." *Id.* at 1020 (emphasis added).
 - "While we greatly respect the PTO's expertise on all matters relating to patentability, including patent eligibility, we are not bound by its guidance. And, **especially regarding the issue of patent eligibility** and the efforts of the courts to determine the distinction between claims directed to natural laws and those directed to patent-eligible applications of those laws, we are mindful of the need for consistent application of our case law." *Id.* (emphasis added).

**USPTO Guidance
is (of course) not
ultimately
binding, cont.**

See Boundy, “What Every Patent and Trademark Lawyer Should Understand About the MPEP, TMEP, and Other Guidance: How to Use (and Defend Against) the MPEP to be a Better Advocate,” 2023 Patently-O Patent Law Journal 1 (2023), pp 4-5 (“To bind the public, an agency must use regulation—guidance is (almost) never binding against any member of the public”), 7-9 (“How may agencies use guidance vis-à-vis the public?”); Adamo & Goryunov, “USPTO Examination Guidance: Binding or Not” (2019).

Apple, Inc. et al. v. Vidal, Appeal No. 2022-1249, slip op (Fed. Cir. March 13, 2023)

Writing for the panel, Judge Taranto summarized—succinctly—what the case was about, how the court ruled, and where it took a critical PTAB open issue: the interface between the Director’s administration of USPTO *inter partes* review proceedings and the Administrative Procedure Act:

In the present action, brought against the Director in district court under the Administrative Procedure Act (APA), 5 U.S.C. §§ 701-706, **plaintiffs challenge instructions the Director issued to the Board to inform it how to exercise, under delegation by the Director, the Director's discretion whether to institute a requested IPR.** Plaintiffs assert that the instructions are likely to produce too many denials of institution requests. **The district court dismissed the APA action on the ground that the Director's instructions were made unreviewable by the IPR provisions of the patent statute.**

We affirm in part and reverse in part. **We affirm the unreview ability dismissal of plaintiffs' challenges to the instructions as being contrary to statute and arbitrary and capricious.** No constitutional challenges are presented. **But we reverse the unreview ability dismissal of plaintiffs' challenge to the instructions as having been improperly issued because they had to be, but were not, promulgated through notice-and-comment rulemaking under 5 U.S.C. § 553.** That challenge, we also hold, at least Apple had standing to present. **We remand for further proceedings on the lone surviving challenge. Like the district court, we do not reach the merits of that challenge.**

Slip op. at 3-4 (emphasis added).

Apple, Inc. et al. v. Vidal: Background

The court set the stage in a few pages:

Being sued for infringement provides a defendant a distinct motivation to seek cancellation, through an IPR, of patent claims asserted against it in court. ... The existence of such overlapping [court and IPR] proceedings raises self-evident issues of efficiency and interbranch relations. But Congress generally left the two branches to exercise their available discretion to address such issues.

Congress enacted no provision for this scenario that directs the court to stay its case in light of a pending request for IPR or an instituted IPR. Nor did Congress enact a provision prescribing how the Director is to address such an overlapping pending court case in exercising the discretion whether to institute an IPR.

Slip op. at 7 (emphasis added).

Apple, Inc. et al. v. Vidal: Background, cont.

1

The Director addressed this topic in 2019 and 2020 by exercising the authority to "designate[] past PTAB decisions as 'precedential' for future panels." ... Specifically, the Director designated as precedential, and hence binding on Board panels (Standard Procedure 2 at 11), two Board decisions that had denied IPR petitions: *NHK Spring Co. v. Intri-Plex Technologies, Inc.*, IPR2018-00752, 2018 WL 4373643 (P.T.A.B. Sept. 12, 2018) (**designated precedential on May 7, 2019**), and *Apple Inc. v. Fintiv, Inc.*, IPR2020-00019, 2020 WL 2126495 (P.T.A.B. Mar. 20, 2020) (**designated precedential on May 5, 2020**). Both decisions address the role, in the decision whether to institute an IPR, of the pendency of district-court infringement litigation involving the same patents. The decisions, designated as precedential, constitute instructions from the Director regarding how the Board is to exercise the Director's institution discretion.

The decisions articulate "a discretionary standard for denying IPR petitions based on pending parallel litigation."

Slip op. at 7-8 (emphasis added).

Apple, Inc. et al. v. Vidal: Background, cont.

2

[T]he *Fintiv* instructions were the subject of this case when it was filed in district court, when it was decided by the district court, and when plaintiffs filed their brief as appellants in this court. Thereafter, on June 21, 2022, the Director updated the instructions. On that day, having issued a request for comments, see Request for Comments on Discretion to Institution Trials Before the Patent Trial and Appeal Board, 85 Fed. Reg. 66,502 (Oct. 20, 2020), and having received hundreds of comments, the Director announced (without publication in the Federal Register) "several clarifications" to the *Fintiv* instructions "under the Director's authority to issue binding agency guidance to govern the PTAB's implementation of various statutory provisions." Memorandum from PTO Director to PTAB, Interim Procedure for Discretionary Denials in AIA Post-Grant Proceedings with Parallel District Court Litigation at 2-3 (June 21, 2022) (*June 2022 Memo*)....

The Director stated that the new instructions would apply to all pending proceedings in the PTO and "remain in place until further notice." *Id.* at 9. But the Director added that "[t]he Office expects to replace this interim guidance with rules after it has completed formal rulemaking." *Id.*

Apple, Inc. et al. v. Vidal: Challenge to the Fintiv Instructions on Three (3) APA Grounds

On August 31, 2020, Apple and three other companies filed suit in the Northern District of California, **seeking to challenge the *Fintiv* instructions on three grounds under the APA:** (1) that the Director acted contrary to the IPR provisions of the patent statute, see 5 U.S.C. § 706(2)(C); (2) that the *Fintiv* instructions are arbitrary and capricious, see 5 U.S.C. § 706(2)(A); and (3) that the *Fintiv* instructions were issued without compliance with the notice-and-comment rulemaking requirements of 5 U.S.C. § 553, **as assertedly required by that APA provision and by 35 U.S.C. § 316.** *Apple*, 2021 WL 5232241, at *3.

The district court granted Apple et al.'s motion to dismiss all three challenged grounds. Slip op. at 11-12 (emphasis added).

Apple, Inc. et al.: The Federal Circuit Analysis on Summary Holding

The court needed only one (1) paragraph to state its decision:

We begin with plaintiffs' first two challenges (urging that the Director's instructions violate the IPR statute and are arbitrary and capricious), which we consider together. We affirm the § 701 (a)(1) dismissal of those challenges and so need not consider § 701(a)(2) or standing. We then address the remaining challenge (concerning the absence of notice-and-comment rulemaking). We hold that neither § 701 (a)(1) nor § 701(a)(2) bars review of the third challenge and that at least Apple has standing to press it. We therefore reverse the dismissal as to the third challenge and remand.

Slip op. at 13 (emphasis added).

Apple, Inc. et al.:
Requirement for
Notice-and-
Comment
Rulemaking
Procedures as to
the Fintiv
Instructions, cont.



Having allowed the dismissal of the first two challenges, Judge Taranto turned to the APA rulemaking challenge:

Plaintiffs' third challenge is **that the Director was required**, by 35 U.S.C. § 116 together with 5 U.S.C. § 553, to **promulgate the institution instructions through notice-and-comment rulemaking procedures.**

Slip op. at 19 (emphasis added).

Today's CLE Code

Apple, Inc. et al.: Requirement for Notice-and-Comment Rulemaking Procedures as to the Fintiv Instructions, cont.

How the court came to this conclusion took but a few pages (slip op. at 20-24):

Whether notice-and-comment rulemaking procedures had to be employed for an agency action presents a matter "quite apart from the matter of substantive reviewability" of the action for being contrary to statute or arbitrary and capricious. *Lincoln v. Vigil*, 508 U.S. 182, 195 (1993); see *American Medical Association v. Reno*, 57 F.3d 1129, 1134 (D.C. Cir. 1995) ("[U]nder the APA the ultimate availability of substantive judicial review is *distinct* from the question of whether the basic rulemaking strictures of notice and comment and reasoned explanation apply. . . . The APA's procedural requirements are enforceable apart from the reviewability of the underlying action, and, indeed, support several important functions wholly distinct from judicial review (omission of internal *Lincoln* citation and quote) ... Given this recognized distinction, we reject a conclusion of unreview ability, under § 701(a)(1) or (2), for plaintiffs' third challenge.

Apple, Inc. et al.: Requirement for Notice-and-Comment Rulemaking Procedures as to the Fintiv Instructions, cont.

[T]he Supreme Court has held that clear and convincing evidence establishes a congressional protection from judicial review of the substance of the Director's institution discretion. **That holding does not cover, and we see no basis for extending it to protect as well, the Director's choice of whether to use notice-and-comment rulemaking to announce instructions for the institution decision. The government here has not shown that anything in § 314(d) or elsewhere in the IPR statute supplies clear and convincing evidence that there was to be no judicial review of the choice of announcement procedure, a matter for which generally applicable standards exist.** ... In these circumstances, we have been shown no sufficient justification for a conclusion that the high standard of § 701 (a)(1) for inferring a preclusion of review is met for this distinct issue.

Nor have we been presented a persuasive justification for concluding that the use or non-use of notice-and-comment rulemaking procedures is a matter "committed to agency discretion by law," 5 U.S.C. § 701 (a)(2). The general rule that non-enforcement choices are committed to agency discretion by law ... **does not mean that the choice of announcement procedure for issuing instructions for the making of choices is also committed to agency discretion by law.** And at least because of the developed standards under 5 U.S.C. § 553, this is not a case where there is "no meaningful standard" by which to judge the process choice. ...

The Supreme Court's decision in *Lincoln* supports our conclusion about reviewability regarding plaintiffs' third challenge.

Slip op. at 19-20 (emphasis added).

***Apple, Inc. et al.:*
Requirement for
Notice-and-
Comment
Rulemaking
Procedures as to the
Fintiv Instructions,
cont.**

2

We also conclude that at least Apple has standing to press the challenge to the Director's instructions as invalid for want of notice-and-comment rulemaking. ...

The applicable standard for redressability required for standing here is also met. **There is a genuine possibility that the [*Fintiv*] instructions would be changed in a way favorable to Apple in a notice-and-comment rulemaking.** That possibility is confirmed by the fact that the Director, in response to comments, announced favorable clarifications in the June 2020 Memo.

Slip op. at 21, 24 (emphasis added).

Apple, Inc. et al.: The Bottom Line and Footnote 7

The court closed by returning to where it started, now with an added assignment to the district court in footnote 7:

We reverse the district court's dismissal of unreview ability of plaintiffs' challenge to the Director's instructions as having improperly been issued without notice-and-comment rulemaking, a challenge that we also conclude at least Apple has standing to press. **We remand for consideration of this one challenge on the merits.**

—

⁷ **Neither side has suggested mootness of this challenge based on the June 2022 Memo or subsequent clarifications, see supra n.4, which, like their predecessors, were not put in place through notice-and-comment rulemaking (including publication in the Federal Register). A challenge might not be mooted by a change in challenged conduct if the alteration is itself subject to the same asserted deficiency as its predecessor. See, e.g., *Davenport v. Washington Education Association*, 551 U.S. 177, 182 n.1 (2007); *Northeastern Florida Chapter of Associated General Contractors of America v. City of Jacksonville*, 508 U.S. 656, 661-63 (1993); 13C Charles A. Wright & Arthur R. Miller, *Federal Practice and Procedure* § 3533.6 at n.63 (3d ed. 2022). The post-*Fintiv* clarifications do not appear to moot plaintiffs' third challenge, the only one remaining after our unreview ability holding regarding the first two challenges. Any further exploration of the effect of the post-*Fintiv* clarifications is left to the district court on remand.**

Slip op. at 25 and ftn. 7 (emphasis added).

See also Burke, “USPTO Flexes Its AIA Powers To Make Retroactive Substantive MPEP Policy Changes,” IP Watchdog (March 23, 2023):

Apple, Inc. et al.: The Bottom Line and Footnote 7, cont.

The USPTO can promulgate a retroactive rule, but only if Congress has specifically granted the agency power to do so. Congress has given the USPTO the right to retroactively grant foreign filing licenses. Neer urges the "best way to avoid promulgating retroactive rules is to engage in notice-and-comment rulemaking." **Unfortunately the USPTO's notice and comment process is a jumbled mess.** Table 7 [Comparison of Established Process of Notice and Comment with USPTO's] compares the established process for providing notice and comments to the USPTO's attempts. ...

For the 2023 MPEP, the USPTO did implement some of the steps required for public notice and comment, however these steps were not performed in the correct order or with required clarity (emphasis added).

**Substantial
Blog
Comment Is
Available; Review
Is Recommended**

At least a baker's dozen "blog-originated" comments have appeared since *Apple, Inc. v. Vidal* was decided on March 13, 2023. Consider, e.g.

Thomson Reuters, "Federal Circuit Reviews Faulty Rulemaking Challenge to *Fintiv* Instructions Practical Law/Intellectual Property & Technology" (March 14, 2023):

Practical Implications

PTAB practitioners hoping that *Apple v. Vidal* would provide finality about the *Fintiv* instructions' fate must await either:

- Future district court proceedings in that case, likely followed by another Federal Circuit appeal.
- Relevant notice-and-comment rulemaking by the USPTO that may moot the remaining district court challenge.

Hsu et al., Crowell & Moring LLP (Lexblog), “Federal Circuit Allows Apple’s *Fintiv* Challenge To Proceed” (March 15, 2023):

**Substantial
Blog
Comment Is
Available; Review
Is Recommended,
cont.**

The Federal Circuit's decision is noteworthy for two key reasons. **First, the decision allows Apple's *Fintiv* challenge to proceed on the merits—potentially calling into question the PTAB'S present practice regarding discretionary denials under *Fintiv*. Second, the decision places squarely at issue the USPTO's ability to issue rules through the mechanism of designating PTAB decisions, such as *Fintiv*, as precedential or via written guidance from Director Vidal, rather than through traditional notice-and-comment rulemaking.** Resolution of these issues could have a significant impact on how the USPTO operates, not only with respect to IPR practice, but potentially even more broadly (emphasis added).

**Substantial
Blog
Comment Is
Available; Review
Is Recommended,
cont.**

Duenckel, “IPRs and the APA: Review of Director’s Discretion to Initiate IPRs,” Dennis Crouch’s Patently-O Review: Preparing for Automated Examination (March 16, 2023):

While affirming the dismissal of the content-based claims, the court separates the procedural requirements set forth in the APA. **Reversing the district court in part, Judge Taranto’s panel opinion reopened Apple’s claim that the Director was required, by 35 U.S.C. § 116 together with 5 U.S.C. § 553, to promulgate institution instructions through notice-and-comment rulemaking procedures.** Slicing the procedure from the underlying substance of the rule, Taranto relies on *Lincoln v. Vigil*, 508 U.S. 182, 195 (1993) to clarify that ... 5 U.S.C. § 553 provides the basis for rulemaking through the notice-and-comment procedure for the Director’s instructions and is a separate analysis of reviewability from the substance of the instructions.

Standing was also preemptively addressed for the remand proceedings. ...

The Federal Circuit may have reached a bit to find standing in an effort to effectively resolve concerns about a heavily used procedure: the IPR process. On remand, the district court might rightly decide that a traditional notice-comment rulemaking procedure is required to redress harms or prophylactically provide clarifications for the patent system that can accomplish the goals of using agency resources effectively.

Allowing the frequent filers of the IPR system to at least have an appearance of input in the procedure would create a process with more certainty and produce more long-term economic efficiency (emphasis added).

Substantial
Blog
Comment Is
Available; Review
Is Recommended,
cont.

Shearman & Sterling, “Federal Circuit Revives Lawsuit Challenging the USPTO Director’s *Fintiv* Instructions on a Limited Basis to Determine Whether They Were Improperly Issued Without a Notice-and-Comment Period,” IP Litigation (March 24, 2023):

Regarding the notice-and-comment challenge, the CAFC considered the Director's updated instructions from June 2022, rather than the original instructions that were the subject of the N.D. Cal.'s original dismissal, noting that the updated instructions were subject to the same asserted deficiency as the original instructions. The CAFC then reversed, finding that nothing in the patent statute supplied clear and convincing evidence that the Director's procedure for *announcing* instructions for making the institution decision was unreviewable. **Further, the CAFC found no persuasive justification to conclude that the USPTO had discretion not to use the required notice-and comment procedure** (emphasis original, bold face added).

**Substantial
Blog
Comment Is
Available; Review
Is Recommended,
cont.**

Fraizer et al., “Rulemaking at the US Patent Office: Does Director Guidance On Discretionary Denials of Review Require Opportunity for Public Comment?”, Global IP & Privacy Law Blog (March 2023):

The so-called *Fintiv* factors established by the former Director's designation of the *NHK* and *Fintiv* decisions as precedential resulted in proportionately more IPR petitions being denied institution. The current Director's guidance memos have provided clarifications that appear to have made discretionary denial far less likely to occur and that help ensure institution based on highly meritorious petitions. **However, neither the designation of opinions as precedential nor the mere issuance of guidance memos complies with notice-and-comment rulemaking requirements. Imposing requirements of notice-and-comment rulemaking are more cumbersome and slow. However, the very nature of the rulemaking process could help to ensure that such decisions are also informed by public and stakeholder opinion and are less likely to change at the whim of an incumbent PTO Director (emphasis added).**

Stewart, “The Fed. Cir. In March: Challenges to USPTO Rulemaking” (March 31, 2023):

**Substantial
Blog
Comment Is
Available; Review
Is Recommended,
cont.**

Accordingly, the Federal Circuit reversed the district court's dismissal of the plaintiffs' procedural challenge to how the USPTO adopted its discretionary denial standards. Thus, in district court, the plaintiffs will be entitled to argue:

1. That the USPTO director was required to adopt the *Fintiv* standards through formal rulemaking, not adjudication; and
2. The director could not modify the *Fintiv* standards through an informal memorandum, but again was required to proceed through formal rulemaking.

Whatever the result, the USPTO director is free to issue formal rules governing discretionary denials of inter partes reviews in light of simultaneous pending district court litigation, and, while the public will be able to comment, those formal rules will not be subject to judicial review (emphasis added).

Questions?

For more information please contact:

Kenneth R. Adamo

Law Offices of KRAdamo
360 W. Illinois, Apt 620
Chicago, IL 60654
kradamo23@gmail.com

Robert Rando

Greenspoon Marder LLP
590 Madison Ave, Ste 1800
New York, NY 10022
robert.rando@gmlaw.com

Charles R. Macedo

cmacedo@arelaw.com

Christopher Lisiewski

clisiewski@arelaw.com

**Amster
Rothstein &
Ebenstein** LLP

405 Lexington Avenue
New York, NY 10174