

IS 37 CFR 41.127(a) VALID UNDER TAFAS v. DUDAS?<sup>1</sup>

by

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and

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**Introduction**

In Interference Estoppel Is Worse Than Issue Preclusion, 15 Intellectual Property Today No. 6 (2008) at page 14, we pointed out that interference estoppel as defined by 37 CFR 41.127(a)<sup>4</sup> is worse (in the sense that it prohibits more subsequent conduct) than

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<sup>4</sup> 37 CFR 41.127(a) reads as follows:

**§ 41.127 Judgment:**

(a) Effect within Office -- (1) Estoppel. A judgment disposes of all issues that were, or by motion could have properly been, raised and decided. A losing party who could have properly moved for relief on an issue, but did not so move, may not take action in the Office after the judgment that is inconsistent with that party's failure to move, except that a losing party

issue preclusion because 37 CFR 41.127(a) provides that “A judgment [in an interference] disposes of all issues that were, or by motion could have properly been, raised and decided [in the interference].” (Emphasis supplied.) Interference estoppel is, in fact, the substantive equivalent of claim preclusion,<sup>5</sup> not issue preclusion.

### **The Difference Between Issue Preclusion and Claim Preclusion**

According to section 27 of the Restatement (Second) of Judgments, concerning issue preclusion:

When an issue of fact or law is actually litigated and determined by a valid and final judgment, and the determination is essential to the judgment, the determination is conclusive in a subsequent action between the parties, whether on the same or a different claim.

In contrast, according to section 17 of the Restatement (Second) of Judgments, concerning claim preclusion:

A valid and final personal judgment is conclusive between the parties, except on appeal or other direct review, to the following extent:

(1) If the judgment is in favor of the plaintiff, the claim is extinguished and merged in the judgment and a new claim may arise on the judgment;

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shall not be estopped with respect to any contested subject matter for which that party was awarded a favorable judgment.

<sup>5</sup> See, e.g., Williams Oil-O-Matic Heating Corp. v. The Butler Co., 39 F.2d 693, 696, 5 USPQ 245, 248 (CCPA 1930) (“The doctrine of res adjudicata [claim preclusion] is applicable to proceedings of a judicial character in the Patent Office.”).

(2) If the judgment is in favor of the defendant, the claim is extinguished and the judgment bars a subsequent action on that claim.

Section 24 of the Restatement (Second) of Judgments further explains:

(1) When a valid and final judgment rendered in an action extinguishes the plaintiff's claim pursuant to the rules of merger or bar ..., the claim extinguished includes all rights of the plaintiff to remedies against the defendant with respect to all or any part of the transaction, or series of connected transactions, out of which the action arose.

(2) What factual grouping constitutes a "transaction", and what groupings constitute a "series", are to be determined pragmatically, giving weight to such considerations as whether the facts are related in time, space, origin, or motivation, whether they form a convenient trial unit, and whether their treatment as a unit conforms to the parties' expectations or business understanding or usage.

**The Judgments of the BPAI Are Entitled to Issue Preclusion Effect, But They May Not Be Entitled to Claim Preclusion Effect**

In Coakwell v. United States, 292 F.2d 918, 130 USPQ 231 (Ct. Cl. 1961), the Court of Claims held that decisions (the board did not yet issue judgments) in patent interferences are entitled to collateral estoppel (the modern term "issue preclusion" was not yet in use) effect,<sup>6</sup> and that holding is, of course, binding on the Federal Circuit<sup>7</sup>

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<sup>6</sup>Coakwell is discussed in Gholz, Collateral Estoppel Effect of Decisions by the Board of Patent Interferences, 65 JPOS 67 (1983).

absent an en banc overruling.<sup>8</sup> However, no appellate court has held that the judgments of the board in patent interferences are entitled to claim preclusion effect in a subsequent judicial proceeding.<sup>9</sup>

### **The Historical Origin of Interference Estoppel**

The Federal Circuit identified four different types of estoppel that have been used historically in interference proceedings: estoppel by dissolution, estoppel by judgment, equitable estoppel, and estoppel for failure to file a motion.<sup>10</sup> Estoppel by dissolution prevented a junior party who had access to the senior party's application from obtaining claims to common patentable subject matter after an interference had been dissolved.<sup>11</sup> Estoppel by judgment prevents a losing party in a previous interference between the same

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<sup>7</sup> The Federal Circuit applies regional circuit law concerning general preclusion principles but applies its own law when determining the scope of a prior judgment. Acumed LLC v. Striker Corp., 525 F.3d 1319, 86 USPQ2d 1950 (Fed. Cir. 2008).

<sup>8</sup> South Corp. v. United States, 690 F.2d 1368, 215 USPQ 678 (Fed. Cir. 1982) (en banc).

<sup>9</sup> Several district courts have done so. Most recently, the United States District Court for the Western District of North Carolina did so in Meritor Transmission Corp. v. Eaton Corp., 81 USPQ2d 1357 (W.D.N.C. 2006), *aff'd w/o op.*, 258 Fed. Appx. 320 (Fed. Cir. 2007) (non-precedential), and that opinion contains a good review of the precedents. Full disclosure: Mr. Gholz testified as a patent law expert witness for the prevailing party.

<sup>10</sup> Woods v. Tsuchiya, 754 F.2d 1571, 1579, 225 USPQ 11, 15-16 (Fed. Cir. 1985) (per curiam) .

<sup>11</sup> Of course, interferences are no longer dissolved. Rather, they all end in judgments.

parties from making any claim (1) that is not patentably distinct from the counts in issue in that interference, or (2) that reads on the disclosure of the winning party to which the losing party had access. Equitable estoppel prevents the winning party in a previous interference terminated by judgment (or the senior party in an interference which ended in dissolution)<sup>12</sup> from claiming patentably distinct subject matter to which the other party did not have access. Estoppel for failure to file a motion to amend would prevent a party which failed to file a timely interlocutory motion to amend from later claiming subject matter that could have been added by such a motion.<sup>13</sup>

Estoppel by judgment is similar to issue preclusion because a losing party would be precluded from revisiting in a subsequent proceeding the validity of its losing claim that was actually adjudicated. Claim preclusion would be a combination of estoppel by judgment and estoppel for failure to file a motion. Interference estoppel, as defined by 37 CFR 41.127(a), would also be a combination of estoppel by judgment and estoppel for failure to file a motion.<sup>14</sup>

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<sup>12</sup> See end note 11, supra.

<sup>13</sup> While the BPAI no longer uses the term “interlocutory motions,” the motions filed during the first phase of most interferences are the equivalent.

<sup>14</sup> In re Austin, 40 F.2d 756, 759, 5 USPQ 285, 290 (CCPA 1930) (“In so far as the Patent Office and this court are concerned, the adjudications already had in this matter have finally settled, not only the rights of the parties under the issue or counts of the interference, but every question and the rights to every claim which might have been presented and determined in the interference proceedings.”). For a detailed historical

## **The PTO's Rationale for Interference Estoppel**

Why does the PTO apply the doctrine of interference estoppel? Interference estoppel itself is an oddity. Commentators long ago noted:

Because the doctrine of interference estoppel as applied by the Court of Customs and Patent Appeals and the [Patent] Office is not based upon any definite provision of the statutes or upon any legal doctrine recognized in courts of general jurisdiction [including the Court of Appeals, D.C.], the scope of the doctrine, and the criteria by which its occurrence is recognized, have varied considerably as succeeding decisions were rendered. \* \* \* The doctrine is peculiar to practice in the Patent Office, the Court of Customs and Patent Appeals, and (in modified form) the courts of the District of Columbia; it has never been recognized by other courts.<sup>15</sup>

The PTO gave an explanation when promulgating the former estoppel rule [37 CFR. 1.658(c)]:<sup>16</sup>

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journey through issue preclusive effects of board decisions, see Gholz, Collateral Estoppel Effect of Decisions by the Board of Patent Interferences, 65 JPOS 67 (1983).

<sup>15</sup> In re Risse, 378 F.2d 948, 956-57, 154 USPQ 1, 8 (CCPA 1967) (citing McCrady, Patent Office Practice, 2d Ed.1946, pp. 161-3) (brackets in original), *overruled on other grounds*, In re Smith, 458 F.2d 1389, 173 USPQ 679 (CCPA 1972).

<sup>16</sup> The former rule stated, in relevant part:

(c) A judgment in an interference settles all issues which (1) were raised and decided in the interference, (2) could have been properly raised and decided

It may be stated that this rule works no hardship to him who is diligent in pursuit of his rights. When an interference is declared, the files of his contestants are open to him. He has full cognizance of their disclosures and claims. So advised, it becomes his duty to put forward every claim he has. [Rule 1.633(e) now Rule 41.127(a)] affords him this opportunity. If the rule be not enforced or enforceable, then delays and litigation are greatly increased. It is quite obvious that the doctrine of estoppel, as applied in these cases, results in the better conduct of the business of the-Patent [and Trademark] Office and in the public good.<sup>17</sup>

The board summed up the policy reasons for interference estoppel as follows:

[T]he doctrine of estoppel serves administrative objectives of securing “the just, speedy, and inexpensive resolution of every proceeding before the Board.” 37 CFR §41.1(b). Since 1984, estoppel based on a prior judgment or on a failure to file a timely motion in a prior interference may be put in issue by filing a motion in the later interference. Estoppel benefits three separate entities: (1) the

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in the interference by a motion ... and (3) could have been properly raised and decided in an additional interference ... A losing party who could have properly moved, but failed to move ... shall be estopped to take *ex parte* or *inter partes* action in the Patent and Trademark Office after the interference which is inconsistent with that party’s failure to properly move.

<sup>17</sup> 49 Fed. Reg. at 48440 (Dec. 12, 1984) (citing In re Shimer, 69 F.2d 556, 558, 21 USPQ 161, 163 (CCPA 1934)). Note that the PTO’s rationale gives no weight to the “hardship” worked upon the parties in the form of the increased costs due to litigating issues which might never be litigated if they didn’t have to be litigated in the first interference.

winning party, (2) the PTO and (3) the public. The winning party avoids the expense of a second interference directed to commonly disclosed subject matter, whether or not claimed by one or both parties, which the losing party could have properly put in issue and litigated in the first interference. Estoppel allows the PTO to expedite patent prosecution, maximize allocation of its resources and improve its administrative efficiency. The public gains greater certainty about who, if anyone, is entitled to a patent on commonly disclosed subject matter.<sup>18</sup>

Thus, the purpose of 37 CFR 41.127, from the PTO's perspective, is “to expedite patent prosecution, maximize [really, optimize] allocation of its resources and improve its administrative efficiency.” However, the question arises: Is 37 CFR 41.127(a) still valid after Tafas v. Dudas, 541 F. Supp.2d 805, 86 USPQ2d 1623 (E.D.Va. 2008)?

### **What Tafas Held**

On January 3, 2006, the PTO issued two separate notices of proposed rulemaking in the Federal Register.<sup>19</sup> After a four-month public comment period (during which the comments were overwhelmingly opposed to the proposed changes), the PTO published

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<sup>18</sup> Lee v. Dryja, 81 USPQ2d 1015, 1023 (BPAI 2005) (non-precedential).

<sup>19</sup> “Changes to Practice for Continuing Applications, Requests for Continued Examination Practice, and Applications Containing Patentably Indistinct Claims,” 71 Fed. Reg. 48 (Jan. 3, 2006) and “Changes to Practice for the Examination of Claims in Patent Applications.” 71 Fed. Reg. 61 (Jan. 3, 2006) respectively.



the Final Rules on August 21, 2007.<sup>20</sup> Those rules would have changed the examination process, inter alia, by limiting the number of continuing applications, requests for continued examination, and claims that an applicant could make as a matter of right.

The PTO justified promulgating rules with such drastic changes in continuation and claims practice on the grounds of improving efficiency in patent prosecution and improving the quality of the patents eventually issued. The PTO explained that the proposed rules were aimed to “[l]ead to more focused and efficient examination, improve the quality of issued patents, result in patents that issue faster, and give the public earlier notice of what the patent claims cover.”<sup>21</sup> In its explanation of the new rules,<sup>22</sup> the PTO focused on data showing increasing continuations,<sup>23</sup> a massive backlog of applications,<sup>24</sup> and long pendency periods.<sup>25</sup>

On August 22, 2007, Triantafyllos Tafas, an inventor, filed a complaint against the PTO to challenge the proposed rules. He then filed an amended complaint on September 7, 2007, seeking, among other things, preliminary and permanent injunctions prohibiting the PTO from implementing the proposed rules and a declaratory judgment

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<sup>20</sup> “Changes to Practice for Continued Examination Filings, Patent Applications Containing Patentably Indistinct Claims, and Examination of Claims in Patent Applications,” 72 Fed. Reg. 46 at 716-843 (Aug. 21, 2007).

<sup>21</sup> 72 Fed. Reg. at 46719.

<sup>22</sup> See, e.g., 72 Fed. Reg. at 46718-23.

<sup>23</sup> 72 Fed. Reg. at 46718.

<sup>24</sup> 72 Fed. Reg. at 46790

<sup>25</sup> 72 Fed. Reg. at 46576.

that the proposed rules violated the Constitution, the Patent Act, the Administrative Procedures Act (“APA”), and the Regulatory Flexibility Act.<sup>26</sup> On October 9, 2007, GlaxoSmithKline, a global pharmaceutical manufacturer, filed a complaint against the PTO, and two days later filed an amended complaint, seeking relief largely similar to that sought by *Tafas*.

On April 1, 2008, the district court held that the proposed rules exceeded the scope of the PTO’s rulemaking authority under 35 USC 2(b)(2) because they were “substantive in nature,”<sup>27</sup> and it accordingly “void[ed] the... [proposed rules] as ‘otherwise not in accordance with law’ and ‘in excess of statutory jurisdiction [and] authority.’ 5 U.S.C. § 706(2).”<sup>28</sup> According to the district court, “Section 2(b)(2) does not vest the USPTO with any general substantive rulemaking power,”<sup>29</sup> which means that it “does not permit the USPTO to promulgate substantive rules, and any rules that may be deemed substantive will be declared null and void.”<sup>30</sup>

So, what does “substantive” mean? According to *Tafas*:

While the APA [i.e., the Administrative Procedures Act, 5 USC 500 et seq.] does not define a “substantive rule,” any rule that “affect[s] individual rights and obligation” is substantive. *Chrysler Corp v. Brown*, 441 U.S. 281, 302

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<sup>26</sup> And the American way?

<sup>27</sup> 541 F. Supp. 2d at 811, 86 USPQ2d at 1627.

<sup>28</sup> 541 F. Supp. 2d at 811, 86 USPQ2d at 1627; interpolation by the court.

<sup>29</sup> 541 F. Supp. 2d at 811, 86 USPQ2d at 1627 (citing *Merck & Co, Inc. v. Kessler*, 80 F.3d 1543, 1550 (Fed. Cir. 1996)).

<sup>30</sup> 541 F. Supp. 2d at 813, 86 USPQ2d at 1629.

(1979); *see also Animal Legal Def. Fund v. Quigg*, 932 F.3d at 927 (stating that substantive rules are those that “effect[] a change in existing law or policy which affect[] individual rights and obligations”); *Am. Hosp. Assoc. v. Bowen*, 834 F.2d 1037, 1045 (D.C. Cir. 1987)(defining substantive rules as those that “grant rights, impose obligations, or produce other significant effects on private interests... or which effect a change in existing law or policy”)(internal citations omitted [by the court]).<sup>31</sup>

Under the rubric “that one who judges least judges best,” the court found it unnecessary to address the issue of whether the proposed rules were in violation of other provisions of the APA. The court determined that it only needed to explain why the proposed rules were substantive in nature and fell outside the PTO’s authority in 35 USC 2(b)(2).<sup>32</sup>

### **Is 37 CFR 41.127(a) "Substantive in Nature"?**

So, is 37 CFR 41.127(a) "substantive in nature"? Of course, the still-born rules that the district court found to be substantive in Tafas were very different ~~than~~ from 37 CFR 41.127(a). However, there are similarities. First, the purpose and policy reasons underlying interference estoppel, as embodied in 37 CFR 41.127(a) and its predecessors, and the rules voided in Tafas are remarkably similar: to improve administrative efficiency by reducing the BPAI’s work load. According to the PTO, interference estoppel expedites patent prosecution, optimizes allocation of its resources, improves its administrative efficiency, and gives the public greater certainty about who is entitled to a

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<sup>31</sup> 541 F. Supp. 2d at 814, 86 USPQ2d at 1629.

<sup>32</sup> 541 F. Supp. 2d at 818 n.4, 86 USPQ2d at 1627 n.4.

patent on commonly disclosed subject matter. However, the PTO argued that the rules voided in Tafas would have had similar beneficial administrative effects. Those arguments might have been persuasive if the court had reached Tafas's argument that rules were violative of the APA because they were “arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law.”<sup>33</sup> However, the court found it unnecessary to address the beneficence of such rules.

The court found that the proposed rules were substantive in nature and thus beyond the authority granted the PTO because they "affect[ed] individual rights" and "produce[d]... significant effects on private interests." Similarly, the severe estoppel effects of 37 CFR 41.127(a) “affect individual rights” and “produce... significant effects on private interests” during post-interference ex parte prosecution. Specifically, 37 CFR 41.127(a) in effect gives losing interferences one and only one “bite at the apple” -- particularly if “the apple” is defined pragmatically as the opportunity to “take its opponent’s claims down.” This is in sharp contrast to many years of precedent which permit losing ex parte appellants to try again and again and again.<sup>34</sup>

So, does the fact that 37 CFR 41. 127(a) adversely affects the “individual rights” of a losing interferent and produces “significant effects on private interests” more than the “individual rights” and “private interests” of an applicant are affected by losing an appeal mean that 37 CFR 41.127(a) is substantive and beyond the authority Congress granted the PTO? Of course, Tafas v. Dudas is on appeal. However, if it is affirmed without major change, we think so.

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<sup>33</sup> 5 USC 706(2)(A).

<sup>34</sup> See, e.g., In re Russell, 439 F.2d 1228, 169 USPQ 426 (CCPA 1971).