

# **From *Chevron* to *Cuozzo*: Practical Impacts of Administrative Law on PTO Proceedings**

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## Panel Discussion

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# **APA Background**

***See* December 6, 2016 Slide Deck**

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# Administrative Procedure Act

5 U.S.C. §§ 551–559, 701–706

- § 552(a)(1) – Agencies must publish in the *Federal Register (inter alia)*:
  - rules of procedure;
  - substantive rules of general applicability;
  - statements of general policy;
  - interpretations of general applicability; and
  - amendments, revisions, or repeals of same.

# Administrative Procedure Act

5 U.S.C. §§ 551–559, 701–706

- § 553 – Rule making:
  - Notice of proposed rules must be published in the *Federal Register*.
  - Exception for “interpretive rules.”
  - “Interested person[s]” shall have an opportunity to comment.
  - Final substantive rules generally must be published in advance of their effective date.

## PTO Factfinding

- PTO factfinding is reviewed under the **APA standards**, 5 U.S.C. § 706 (“substantial evidence” or “arbitrary, capricious, abuse of discretion”), rather than the stricter “clear error” standard that governs review of trial court factfinding.
- “[A] reviewing court must apply the APA’s court/agency review standards **in the absence of an exception.**”
  - *Dickinson v. Zurko*, 527 U.S. 150, 154 (1999).

## PTO Factfinding

*Merck & Cie v. Gnosis S.p.A*, No. 14-1779 (Fed. Cir. Apr. 26, 2016)

- CAFC denied en banc rehearing on whether clear error standard (as opposed to substantial evidence standard) governs review of PTAB factual findings in IPRs.
- Judge Newman dissented.
- Supreme Court denied cert. on October 11, 2016.
- Takeaway: *Zurko* still governs IPR review.

# PTO Factfinding

- *Gechter v. Davidson*, 116 F.3d 1454, 1457 (Fed. Cir. 1995): BPAI must state its findings with “**sufficient particularity**” to allow the Federal Circuit “without resort to speculation, to **understand the reasoning** of the Board, and to determine whether it **applied the law correctly** and whether the **evidence supported the underlying and ultimate fact findings.**”
- *Cutsforth, Inc. v. MotivePower, Inc.*, 636 F. App’x 575, 577 (Fed. Cir. 2016): “**Broad, conclusory statements are not enough** to satisfy the Board’s obligation to provide reasoned explanation for its decision.”
- *In re NuVasive, Inc.*, 15-1670, slip op. 8 (Fed. Cir. Dec. 7, 2016): “[T]he PTAB ‘must examine the relevant data and articulate a satisfactory explanation for its action including a **rational connection between the facts found and the choice made.**’” (quoting *Motor Vehicle Mfrs. Ass’n v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 43 (1983)).

# PTO Factfinding

## *But:*

- *In re Huston*, 308 F.3d 1267, 1281 (Fed. Cir. 2002): “[W]e will uphold a decision of less than ideal clarity if the agency’s **path may reasonably be discerned.**”
- *In re NuVasive, Inc.*, 15-1670, slip op. 9 (Fed. Cir. Dec. 7, 2016): “Although we do not require perfect explanations, we may affirm the PTAB’s findings ‘if we may **reasonably discern** that it followed a proper path, even if that path is less than perfectly clear.’” (quoting *Ariosa Diagnostics v. Verinata Health, Inc.*, 805 F.3d 1359, 1365 (Fed. Cir. 2015)).



## Practice Pointers (PTO Factfinding)

The Federal Circuit seems to be demanding greater explanation and clarity of reasoning in PTAB decisions. Questions to ask:

- Can the agency's logic be reasonably discerned?
- Has the agency drawn a connection between its reasoning and the facts?
- Is the agency relying on broad, conclusory statements?
- *NuVasive*: Has PTAB articulated a reason *why* a PHOSITA would combine prior art references?

## PTO Rulemaking

*Cuozzo Speed Technologies, LLC v. Lee*, 136 S. Ct. 2131 (2016)

- PTO has **substantive** rulemaking authority over IPRs pursuant to 35 U. S. C. § 316(a)(4).
- The Supreme Court majority noted the Federal Circuit’s characterization of PTO’s “limited . . . **procedural**” rulemaking authority under § 2(b)(2)(A).

## PTO Rulemaking Authority Over IPRs

*Synopsys, Inc. v. Mentor Graphics Corp.*, 814 F.3d 1309 (Fed. Cir. 2016)

- PTAB final order need not address every claim raised in the petition for review.
- PTO regulation (37 C.F.R. § 42.108) to that effect “is a reasonable interpretation of the statutory provision governing the institution of *inter partes* review.”
  - Suggests it is *Chevron* step 1, but applies *Chevron* step 2 in the alternative.

# PTO Rulemaking Authority Over IPRs

*SAS Institute, Inc. v. Lee*, No. 16-969 (U.S.)

- Same question as in *Synopsys*: Does § 318(a) require the PTAB to issue a final written decision as to every claim challenged?
- Cert. petition argues that plain text of § 318(a) requires decision on all challenged claims.
- Argues against agency deference:
  - Internal Executive Branch conflict: US DOJ has argued against PTAB's partial-institution, partial-decision practice.
  - PTO's rationales for adopting regulation were insufficient.

# PTO Rulemaking Authority Over IPRs

## *In re Aqua Products:*

- § 316(d)(1) allows one motion to amend that proposes a reasonable number of substitute claims without enlarging the scope of the claims.
- PTO regulation (37 C.F.R. § 42.20(c)) places burden on movant, and PTAB has interpreted that regulation to place the burden on the patentee to show that the proposed amendment would make the claims patentable over the known prior art.
- The Federal Circuit panel applied that interpretation and held that PTAB did not abuse its discretion in denying the patentee's motion to amend.

# PTO Rulemaking Authority Over IPRs

## *In re Aqua Products* (cont'd)

- Full Federal Circuit granted en banc rehearing and heard oral argument on December 9, 2016, on two questions:
- (1) When patent owner moves to amend its claims under § 316(d), may the PTO place the burden of persuasion or burden of production on the patent owner regarding patentability of the amended claims? Which burdens are permitted on the petitioner under § 316(e)?
- (2) When petitioner does not challenge the patentability of a proposed amended claim, or the Board thinks the challenge is inadequate, may the Board sua sponte raise patentability challenges to such a claim? If so, where would the burden of persuasion/production, lie?

# PTO Rulemaking Authority Over IPRs

## *In re Aqua Products* (cont'd)

- § 316(a)(9): authority to promulgate “standards and procedures for allowing the patent owner to move to amend the patent” to “propose a reasonable number of substitute claims.”
  - *Idle Free Systems, Inc.* (PTAB June 11, 2013): “For a patent owner’s motion to amend, 37 C.F.R. § 42.20(c) places the **burden on the patent owner** to show a patentable distinction of each proposed substitute claim over the prior art.”
  - *MasterImage 3D, Inc.* (PTAB July 15, 2015): “The **ultimate burden of persuasion remains with Patent Owner**, the movant, to demonstrate the patentability of the amended claims.”
- *Cf.* § 316(e): “the **petitioner shall have the burden of proving a proposition of unpatentability** by a preponderance of the evidence.”
- Several Judges seemingly troubled by lack of notice-and-comment rulemaking for requiring movant to show patentability.

## Practice Pointers (PTO Rulemaking)

- Is the PTO rule the product of notice-and-comment rulemaking or adjudication?
  - Answer may determine the amount of deference, if any, that the agency’s interpretation will receive.
  - Orders lacking sufficient formality may not receive deference.
  - *Post hoc* rationales may not receive deference.
- Is agency interpretation consistent with statute?
  - If not, interpretation may fail *Chevron*.



# PTO Decisions To Initiate IPRs

## ***Cuozzo:***

- Patent Owner contested PTAB's review of independent claims on which challenged dependent claim was based because independent claims were not expressly challenged in petition.
- Supreme Court found judicial review barred by Section 314(d), which states that the "determination by the [Patent Office] whether to institute an inter partes review under this section shall be final and nonappealable."
- Section 314(d) bars judicial review "of the kind of mine-run claim at issue here" involving institution.
- Section 314(d) may not bar "consideration of a constitutional question," a "due process problem," or allow agency "to act outside its statutory limits."

## PTO Decisions To Initiate IPRs – Time Bar

- ***Achates Reference Publishing, Inc. v. Apple Inc.***, 803 F.3d 652, 658 (Fed. Cir. 2015): Section 314(d) bars review of PTAB decision to initiate IPR “based on its assessment of the **time-bar** of § 315(b), even if such assessment is reconsidered during the merits phase of proceedings and restated as part of the Board’s final written decision.”
- ***Click-to-Call v. Oracle*** (Fed. Cir. Nov. 17, 2016): Original decision relied on *Achates* to dismiss appeal raising 315(b) time bar challenge. Supreme Court vacated and remanded in view of *Cuozzo*. Federal Circuit once again dismissed appeal finding it was bound by the *Achates* precedent.

## PTO Decisions to Initiate IPRs – Time Bar

***Wi-Fi One LLC v. Broadcom Corp.*** (Fed. Cir. Sept. 16, 2016):

- Court held that *Cuozzo* did not implicitly overrule *Achates*.
- Judge Reyna urges *en banc* reconsideration of *Achates*, because it qualifies for an exception where “the agency exceeded the scope of its delegated authority or violated a clear statutory mandate.” *Cf.* APA, 5 U.S.C. § 706(2)(C) (“in excess of statutory jurisdiction, authority, or limitations”).
- According to Judge Reyna the “time-bar question is not a ‘mine-run’ claim, and is not a mere technicality related only to a preliminary decision concerning the sufficiency of the grounds that are pleaded in the petition.”

## PTO Decisions to Initiate IPRs – Time Bar

**En Banc Review of *Wi-Fi One*:** On Jan. 4, 2017, Federal Circuit agreed to rehear en banc on the following question:

- Should this court overrule *Achates* and find judicial review available for patent owner to challenge PTO's determination that petitioner satisfied § 315(b)'s timeliness requirement for filing of IPR petitions.
- Briefing to be completed by end of March.

## PTO Decisions To Initiate IPRs

*Ethicon Endo-Surgery, Inc. v. Coviden LP*, No. 16-366 (U.S.)

- Divided CAFC panel held that neither 35 U.S.C. § 314 nor the Constitution precludes the same panel of the PTAB from making the initial decision to institute an IPR and the final determination. CAFC denied rehearing.
- Ethicon filed a cert. petition, arguing in part that the APA prohibits combining executive and adjudicative functions below the agency head. *See* 5 U.S.C. § 554(d).
- Cert denied on January 9, 2017.

## Due Process/Fair Notice In IPRs

*In re NuVasive, Inc.*, Nos. 2015-1672, -1673 (Fed. Cir. Nov. 9, 2016)

- Vacated PTAB findings of obviousness because IPR petition did not notify the patentee of the assertions about the pertinent portions of the prior art that later became critical.
- PTAB’s “ultimate reliance on that material, together with its refusal to allow NuVasive to respond fully once that material was called out, violated NuVasive’s rights under the Administrative Procedure Act.”

## Due Process/Fair Notice In IPRs

*Genzyme Therapeutic Prods. L.P. v. Biomarin Pharm. Inc.*, 825 F.3d 1360 (Fed. Cir. 2016)

- Held: Fair notice and due process do not require PTAB institution decision to cite all references later relied on to show the state of the art at the time of the invention.
- Patentee must receive notice and opportunity to be heard on “factual or legal issues.”

## Practice Pointers (Due Process)

- Did institution decision identify all factual or legal issues?
- Did patentee receive adequate notice and opportunity to be heard on all issues?
- APA: Agency may not change theories in mid-stream. 5 U.S.C. § 554(b)-(d).
- Generally no deference.



## Exclusivity Of Judicial Review (?)

*Elm 3DS Innovations, LLC v. Lee* (E.D. Va. Dec. 2, 2016),  
*appeal pending*, No. 17-1572 (Fed. Cir. Feb. 3, 2017)

- APA challenge to PTO's authority to treat certain days as federal holidays for the purpose of tolling PTO's filing deadlines during a power outage.
  - Petitions for IPR of Elm's patents were filed on the extended deadline.
- District court dismissed, finding it had no subject-matter jurisdiction to entertain a collateral APA attack on an ongoing IPR proceeding.
- Also found that Commissioner's order was not a final agency action.
- Appeal noticed and docketed in the Federal Circuit.

## Exclusivity Of Judicial Review (?)

*Versata Dev. Grp., Inc. v. Lee*, 793 F.3d 1352, 1354  
(Fed. Cir. 2015)

- PTAB instituted covered business method (CBM) review.
- Patentee sued in EDVa under the APA to set aside PTAB's institution decision.
- District court dismissed for lack of subject-matter jurisdiction.
- Federal Circuit: “the district court was correct in barring judicial review pursuant to [35 U.S.C. §] 324(e).”

# Covered Business Methods

*Unwired Planet, LLC v. Google Inc.*, No. 15-1812 (Fed. Cir. Nov. 21, 2016)

- Held: PTAB acted “not in accordance with law” under the APA by initiating CBM review of patents that were merely “incidental to” or “complementary to” a financial activity.
- PTO’s standard was based on a general policy statement that PTO had not adopted in regulation; but “an ‘agency cannot apply or rely upon a general statement of policy as law.’”
- No deference. (*Chevron* step 1?)
- Declined to consider arguments not raised before PTAB (waiver).
- Petition for rehearing en banc pending.

## Practice Pointers (Judicial Review)

- Does PTAB's final written decision invalidating a patent reflect that the agency acted in excess of statutory jurisdiction?  
5 U.S.C. § 706(2)(C)?
- Did PTAB interpret its statutory jurisdiction?
- Does any interpretation command deference?

# Reliance On Longstanding Agency Practice – Statutory Interpretation

*Immersion Corp. v. HTC Corp.*, 826 F.3d 1357 (Fed. Cir. 2016)

- Can a continuation application filed on the **same day** that the first application issued as a patent receive the priority date of the first application under 35 U.S.C. § 120?
- Held: **Yes**, based in part on “consistent, clearly articulated agency practice going back at least half a century,” “large-scale reliance,” and “agency’s procedural authority to define when the legal acts of ‘filing’ and ‘patenting’ will be deemed to occur.” 826 F.3d at 1359.
- “The Supreme Court has long recognized that a ‘**longstanding administrative construction**,’ at least one on which **reliance** has been placed, provides a powerful reason for interpreting a statute to support the construction.” *Id.* at 1364.

# Reliance On Longstanding Agency Practice – Limits On Agency Deference

*Encino Motorcars LLC v. Navarro*, 137 S. Ct. 2117 (2016)

- When an agency changes its existing position, it must “display awareness that it is changing position” and show “good reasons” for the change.
- Agency must take into account “serious reliance interests” in “longstanding policies.”
- Agency must provide “reasoned explanation” for “disregarding” prior policy.
- An “unexplained inconsistency” in longstanding agency practice may receive “no *Chevron* deference.”

## Practice Pointers (Longstanding Practice)

- Does the statutory interpretation accord with longstanding agency practice?
- Is the agency action an unexplained departure from longstanding agency practice?
  - If so, it might not receive *Chevron* deference.
- Are there serious reliance interests engendered in longstanding agency policy?
- Bring challenges to agency practices before they become “longstanding.”

## Other APA Challenges – Venue

*Big Baboon, Inc. v. Lee*, No. 16-496 (U.S. filed Oct. 10, 2016).

- Does a lawsuit that alleges that a PTO evidentiary ruling in an *ex parte* reexamination violates the APA and due process “arise under the patent act” and thus trigger the Federal Circuit’s exclusive jurisdiction?
- CAFC asserted jurisdiction because APA claim “plausibly raises a substantial question under the patent laws.”
- SCOTUS called for a response.
- Certiorari denied February 21, 2017.



## Other APA Challenges – Cost-Benefit Analysis?

- *Michigan v. Environmental Protection Agency*, 135 S. Ct. 2699, 2707-08 (2015): “Consideration of cost reflects the understanding that reasonable regulation ordinarily requires paying attention to **the advantages and the disadvantages of agency decisions**. It also reflects the reality that ‘too much wasteful expenditure devoted to one problem may well mean considerably fewer resources available to deal effectively with other (perhaps more serious) problems.’”
- Exec. Order No. 12,291, 3 C.F.R. 127 (1982) – Executive branch agencies must conduct a cost-benefit analysis of “economically significant” regulations (annual economic impact of  $\geq$  \$100 million).
- *Business Roundtable v. SEC*, 647 F.3d 1144 (D.C. Cir. 2011).

## Proposed Legislation

- H.R. 5: Regulatory Accountability Act of 2017, sponsored by Rep. Rob Goodlatte.
  - Proposes to amend APA to require courts to “decide de novo all relevant questions of law, including the interpretation of constitutional and statutory provisions, and rules made by agencies.”
  - Rules with annual cost on the economy > \$1 billion could not take effect until all legal challenges have been resolved.
- Passed House on Jan. 11, 2017.

## Proposed Legislation

- Regulations from the Executive in Need of Scrutiny Act of 2017 (REINS Act).
  - Regulations with annual cost on the economy > \$100 million would require Congressional approval before they could take effect.
  - Would require review of rules currently in effect.
  - Competing House and Senate bills.
- H.R. 26 passed House on Jan. 5, 2017.

# Questions

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