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

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Panel Discussion
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OVERVIEW

- Administrative Procedure Act
- General administrative law principles
- Types of administrative law challenges to PTO action
- Questions

Administrative Procedure Act ("APA")
5 U.S.C. §§ 551–559, 701–706

- Allows a person aggrieved by the **final action** of an administrative agency to challenge that action in federal court and seek equitable—but not monetary—relief.
- "A preliminary, procedural, or intermediate agency action or ruling not directly reviewable is subject to review on the review of the final agency action." 5 U.S.C. § 704.

Administrative Procedure Act ("APA")
5 U.S.C. §§ 551–559, 701–706

"Nothing herein (1) affects **other limitations on judicial review** or the power or duty of the court to dismiss any action or deny relief on any other appropriate legal or equitable ground; or (2) confers authority to grant relief if any other statute that grants consent to suit expressly or impliedly forbids."

- 5 U.S.C. § 702.

Administrative Procedure Act ("APA")

5 U.S.C. §§ 551–559, 701–706

- Catch-all six-year limitations period for commencing a lawsuit against the United States. 28 U.S.C. § 2401(a).
  - **But:** specific review provisions may have shorter time. E.g., 37 C.F.R. § 90.3 (63 days for appealing PTAB final decision).
- Complaint may name as defendants "the United States, the agency by its official title, or the appropriate officer." 5 U.S.C. § 703.

Administrative Procedure Act ("APA")
Relief Pending Review – 5 U.S.C. § 705

- The reviewing court may, "to the extent necessary to prevent irreparable injury," issue "all necessary and appropriate process to postpone the effective date of an agency action or to preserve status or rights pending conclusion of the review proceedings."

Administrative Procedure Act ("APA")

Scope of Review – 5 U.S.C. § 706

Reviewing court "shall" set aside final agency action that is:

- "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law." § 706(2)(A).
- "contrary to constitutional right, power, privilege, or immunity," "in excess of statutory jurisdiction, authority, or limitations," or "without observance of procedure required by law." § 706(2)(B)-(D).
- "unsupported by substantial evidence." § 706(2)(E).

Arbitrary And Capricious Standard Of Review

". . . if the agency has relied on factors which Congress has not intended it to consider, entirely failed to consider an important aspect of the problem, offered an explanation for its decision that runs counter to the evidence before the agency, or is so implausible that it could not be ascribed to a difference in view or the product of agency expertise."

- *Motor Vehicle Mfrs. Ass'n of the U.S. v. State Farm Mut. Ins. Co.*, 463 U.S. 29, 43 (1983).

Judicial Deference

Chevron, U.S.A., Inc. v. Natural Res. Def. Council, Inc., 467 U.S. 837 (1984)

- Theory: express or implied delegation by Congress to the agency to interpret ambiguous statutes through rulemaking
- Two-step framework for analyzing agency action*

*_Chevron_ "Step Zero"

- Does the agency have authority to issue the challenged rule?
- "We expect Congress to speak clearly if it wishes to assign to an agency decisions of vast 'economic and political significance.'" *Utility Air Regulatory Group v. EPA*, 134 S. Ct. 2427, 2444 (2014).

Chevron Step 1

- Does the statute speak to the specific issue?
- "If the intent of Congress is clear, that is the end of the matter; for the court, as well as the agency, must give effect to the **unambiguously** expressed intent of Congress" as determined using "traditional tools of statutory construction." *Chevron*, 467 U.S. at 842-43.

Chevron Step 2

- If statute is silent or ambiguous, then an agency's legislative regulations generally will be "given controlling weight unless they are arbitrary, capricious, or manifestly contrary to the statute," and "a court may not substitute its own construction of a statutory provision for a reasonable interpretation made by the administrator of an agency." *Chevron*, 467 U.S. at 844.

When does *Chevron* apply?

- "[A]dministrative implementation of a particular statutory provision qualifies for *Chevron* deference when it appears that Congress delegated authority to the agency **generally to make rules carrying the force of law**, and that the agency interpretation claiming deference was **promulgated in the exercise of that authority**." *United States v. Mead Corp.*, 533 U.S. 218, 226-27 (2001).

Skidmore Deference

- An informal agency interpretation, such as an opinion letter, is "entitled to respect" but only to the extent it has the "power to persuade." *Skidmore v. Swift & Co.*, 323 U.S. 134, 140 (1944).
- Its weight "will depend upon the thoroughness evident in its consideration, the validity of its reasoning, its consistency with earlier and later pronouncements, and all those factors which give it power to persuade, if lacking power to control." *Id.*

Auer Deference

- Courts must defer to an agency's interpretation of its own ambiguous regulation "unless plainly erroneous or inconsistent with the regulation." *Auer v. Robbins*, 519 U.S. 452, 462 (1997).
- "*Auer* deference is *Chevron* deference applied to regulations rather than statutes." *Decker v. Northwest Environmental Defense Center*, 133 S. Ct. 1326, 1339 (2013) (Scalia, J., concurring in part and dissenting in part).
- Derives from *Bowles v. Seminole Rock & Sand Co.*, 325 U.S. 410, 414 (1945), a pre-APA case.

Auer Deference Does Not Apply When:

- The agency's interpretation is plainly erroneous or inconsistent with the regulation;
- There is reason to suspect that the agency's interpretation "does not reflect the agency's fair and considered judgment on the matter in question";
- The agency's interpretation conflicts with a prior interpretation; and
- It appears that the agency's interpretation is nothing more than a "convenient litigating position" or a "*post hoc* rationalizatio[n] advanced by an agency seeking to defend past agency action against attack."

Christopher v. SmithKline Beecham Corp., 132 S. Ct. 2156 (2012)

Legislative Rules Versus Interpretive Rules

Legislative rules:

- must be promulgated pursuant to notice-and-comment rulemaking consistent with APA procedures (5 U.S.C. § 553);
- have the force and effect of law.

Interpretive rules, general statements of policy, and rules of agency organization, procedure, or practice:

- do not require notice-and-comment rulemaking;
- do not have the force and effect of law.
- "Because an agency is not required to use notice-and-comment procedures to issue an initial interpretive rule, it is also not required to use those procedures when it amends or repeals that interpretive rule." *Perez v. Mortgage Bankers Ass'n*, 135 S. Ct. 1199 (2015).

Chenery Doctrine

- Agency action can be upheld only on the grounds on which the agency itself relied.
- Agency action "cannot be upheld merely because findings might have been made and considerations disclosed which would justify its order as an appropriate safeguard for the interests protected by the Act. There must be such a responsible finding."

- *SEC v. Chenery Corp.*, 318 U. S. 80, 94 (1943).

Preservation/Waiver

- A party challenging agency action must preserve all arguments before the agency or they may be deemed **waived** for later judicial review.
- "[O]rderly procedure and good administration require that objections to the proceedings of an administrative agency be made while it has opportunity for correction in order to raise issues reviewable by the courts." *United States v. L.A. Tucker Truck Lines, Inc.*, 344 U.S. 33, 37 (1952).

Practice Pointers

- **Preserve** arguments before the agency.
- Consider the level of **deference** that applies to arguments.
- Is the challenged agency action **final**?
- Does ***Chevron*** apply? At which step is there a problem?
- Is the agency defending on the same grounds on which it took action? (***Chenery***)
- Does ***Auer*** deference apply?

Types of administrative law challenges to PTO action

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."
- *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."
- *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."

Practice Pointers

More deferential review for PTAB factfinding in IPRs than for judicial factfinding in district court litigation raises the stakes of:

- Winning factual disputes in IPRs;
- Preserving legal arguments in IPRs;
- PTAB articulating factual findings with sufficient particularity.
  - Potential challenges: Consider whether PTAB has stated its rationale with sufficient particularity.

PTO Rulemaking

Tafas v. Doll, 559 F.3d 1345 (Fed. Cir. 2009)

- Challenge to PTO rules limiting the number of continuation applications and requests for continued examination, and the number of independent claims or total claims in each application.
- EDVa held rules were **substantive**—they affected individual rights and obligations by making it more difficult to get a patent—and exceeded PTO rulemaking authority under 35 U.S.C. § 2(b)(2).

PTO Rulemaking

Tafas v. Doll, 559 F.3d 1345 (Fed. Cir. 2009) (cont'd)

- Divided CAFC panel agreed PTO did not have substantive rulemaking authority, but believed the rules were procedural. Held that all but the limitation on requests for continued examination conflicted with the Patent Act, and were invalid.
- CAFC granted en banc review, vacating panel decision.
- PTO unilaterally rescinded rules, mooting appeal but leaving EDVa opinion intact.

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 distinguished PTO's more "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 Decisions To Initiate IPRs

- ***Cuozzo*:** 35 U.S.C. § 314(d) bars challenges to PTO's decision to initiate IPR.
- ***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."
- ***Wi-Fi One LLC v. Broadcom Corp.*** (Fed. Cir. Sept. 16, 2016): 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").

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 has 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).
- Look for cert. decision in January 2017.

PTO Conduct Of IPRs

In re Aqua Products – en banc oral argument scheduled for December 9, 2016. Two questions:

- (1) When the patent owner moves to amend its claims under 35 U.S.C. § 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 35 U.S.C. § 316(e)?
- (2) When the 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 Conduct Of IPRs

In re Aqua Products (cont'd)

- § 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 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 panel applied that interpretation and held that PTAB did not abuse its discretion in denying the patentee's motion to amend.

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

- 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 (?)

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, 2015)

- 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.'"
- Apparently *Chevron* step 1; no deference.
- Declined to consider arguments not raised before PTAB (waiver).

Reliance On Longstanding Agency Practice

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

- "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.
- "In short, the repeated, consistent pre-1952 and post-1952 judicial and agency interpretations, in this area of evident public reliance, provide a powerful reason to read section 120 to preserve, not upset, the established position." *Id.* at 1365.

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, due December 28.
- Look for cert. decision in January or February 2017.

APA Challenges Ahead – 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 ≥ $100 million).
- *Business Roundtable v. SEC*, 647 F.3d 1144 (D.C. Cir. 2011).

Questions

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