Guest Post: Why Administrative Law Matters to Patent Attorneys-In re Cuozzo Speed Technologies LLC

February 8, 2015 Dennis Crouch

by David Boundy

Many patent attorneys—including me—went through law school thinking "Administrative law? What do I care?" Administrative law matters; it is as important to intra-PTO litigation and to Federal Circuit appeals as the Federal Rules of Civil Procedure are during district court proceedings.

Administrative law provides a rich set of tools to for a party to guide rational agency decision making while a proceeding is in progress, and to challenge adverse decisions on judicial review. Administrative law tools can:

- require the agency to follow its own regulations as written, without *ad hoc* "interpretation" or creation of on-the-fly rules,
- require the agency to consider all relevant evidence and arguments,
- establish jurisdiction for judicial review,
- on judicial review, obtain favorable standards of review by slotting issues into exceptions to the high deference normally accorded agency action,
- turn weak policy-based arguments into strong arguments based on statute and Supreme Court authority,
- challenge the agency's evidentiary and factual rulings on standards that are often far more favorable than the standard of review applied to Article III courts—indeed, the standard of review in some instances can be *less* deferential than the standard applicable to jury findings,
- adduce new evidence on appeal,
- limit the agency's ability to wiggle out of a case by requesting remand, and instead force the issue to a binding judgment against the agency, and
- confine the arguments that the agency can make to defend its action, and
- require the agency to meet the requirements of the Administrative Procedure Act and other relevant laws when promulgating its regulations or guidelines.

Competence in administrative law is essential in complex patent prosecution, *ex parte* appeals, PTAB trials, and appeals to the Federal Circuit from PTO and ITC actions.

The Administrative Law Requires Courts to Accept Jurisdiction to Review Agency

Non-Compliance with Their Own Regulations

For example, last Wednesday, the Federal Circuit in *In re Cuozzo Speed Technologies, LLC* ruled that the court has no jurisdiction to review decisions by the Patent Trial and Appeal Board (PTAB) whether to institute an *Inter Partes* Review (IPR). An argument based on administrative law would have established the Federal Circuit's jurisdiction, but that argument was not raised.

The Federal Circuit's holding was so broad as to oust the court of jurisdiction to review whether the PTAB's decision was made on criteria contrary to statute or the regulations that the PTAB promulgated for itself. The court read 35 U.S.C. § 314(b) so broadly as to insulate from judicial review all decisions to institute or not institute an IPR, in *all* circumstances.

But the administrative law requires a court to exercise jurisdiction to review agency compliance with the agency's own regulations and guidance, and to set aside agency action issued "without observance of procedure required by law."[1] The Supreme Court has addressed the following fact pattern on about a dozen occasions. An agency acts outside its procedures. The aggrieved party sues. The agency points to a statute that precludes review, and asks the court to deny jurisdiction on that basis. In every such case, the Supreme Court holds that even if a statute purports to preclude review, jurisdiction remains to review the agency's procedures, to assess whether the agency action was "without observance of procedure required by law." "Only in the rare—some say non-existent—case … may review for 'abuse' be precluded."[2] The Court holds that preclusion statutes must be read narrowly, to preclude review only of the *ultimate decision on the merits*, leaving intact jurisdiction to review whether the agency departed from procedural requirements. The Supreme Court has applied this principle to statutes even broader and clearer than § 314(b), and to government interests far more fundamental. It is a *very* strong principle.

Had that administrative law argument been raised, the Federal Circuit would unquestionably have accepted jurisdiction in *Cuozzo*.

The Administrative Law Confines the Board's Discretion to Deny Motions to Amend During IPR's

Cuozzo's brief argues that the Board erred in denying a motion to amend claims. The argument cites no authority. This argument could have been converted from a weak argument to a very strong one, by grounding it in the administrative law.

When an agency promulgates a regulation, it is required to explain the regulation in a Final Rule notice in the Federal Register. Any gloss put on the regulation in that notice binds the public under *Chevron*[3] deference (though the many exceptions to *Chevron* are far less known). This gloss is binding on the agency as well—an agency can't twist its regulations like a nose of wax. Nor can an agency move regulatory burden from one regulation to another, like a confidence man moving a pea from under one shell to another, by giving inconsistent rationales and interpretations for regulations.

In promulgating the IPR regulations, the PTO justified its choice of a "broadest reasonable interpretation" standard for claim construction by pointing to "a party's ability to amend claims to avoid prior art—which exists in these proceedings (§ 42.221)."[4] But the PTAB almost never grants these motions to amend.[5] Thus, as a practical matter, the agency's basis for adopting "broadest reasonable interpretation" is illusory. The administrative law does not allow agencies to have things both ways—the PTO can't both uniformly deny motions to amend and point to that "right" as justification for broadest reasonable interpretation.

The strong argument is based in administrative law. While most "arbitrary and capricious" cases are hard, a few subcategories are easy. PTAB decisions frequently raise issues that can be slotted into these easy subcategories for appeal.

The PTAB's Trial Regulations Were Issued with Insufficient Attention to Rulemaking Procedure

Cuozzo also affirms the PTO's choice of "broadest reasonable interpretation" as the standard for claim construction. However, the PTO's "broadest reasonable interpretation" rule—like many of the PTO's other regulations—is subject to challenge because the PTO was less than rigorous in following rulemaking procedure.

Agency rulemaking is governed by a number of statutes, including the Administrative Procedure Act, Regulatory Flexibility Act, Paperwork Reduction Act, Information Quality Act, E-Government Act of 2002, Independent Offices Appropriations Act, regulations on Information Collections, guidelines on Information Quality, and Executive Order 12,866. These laws require specific procedures, disclosures, and analyses. For example, they require an agency to disclose its assumptions, factual and statistical information and models and their underlying support on the agency's web site. The agency must ask specific questions to seek comment. The agency must show cost-benefit analyses to asses effect on small entities and overall economic effect, and must show that the agency has sought to minimize (not just reduce, but minimize) paperwork burdens. The agency must show its work, and provide supporting evidence, similar to that required for a peer-reviewed journal article.

The Paperwork Reduction Act is especially interesting, because it is little known and exceptionally powerful. As you may recall, the PTO had to stand down on its Appeal regulation on the morning it was to go into effect because the Office of Management and Budget withheld the PTO's power to enforce those regulations, after a number of letters pointed out PTO violations of the PRA. (I had a little influence in that outcome.) Likewise, OMB directed PTO to stand down on the Continuations, 5/25 Claims, and IDS regulations (I also had something to do with that).

During the rulemaking process for the PTO's AIA regulations, several of the comment letters noted procedural deficiencies in the PTO's Notices of Proposed Rulemaking and its supporting materials. The letters warned that these deficiencies would expose the PTAB's decisions to challenge because the PTAB's regulations were not validly promulgated. The oversights were not corrected before the final regulations were published.

Many PTAB decisions present winnable issues for appeal based on faulty procedure during rulemaking. *Cuozzo* likely could have been such a case, but administrative law opportunities were missed.

Conclusion

Some administrative law statutes permit issues to be raised at any time, and such issues have been successfully raised for the first time in courts of appeals. Unfortunately, in *Cuozzo*, these administrative law arguments weren't squarely raised. The lesson of *Cuozzo* is that patent attorneys—especially those that practice in contested cases before the PTAB and in appeals to the Federal Circuit—need to know the administrative law as well as they know the patent law.

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[1] 5 U.S.C. § 706(2)(D).

[2] *Bowen v. Michigan Academy of Family Physicians*, 476 U.S. 667, 672 n.3 (1986)

[3] *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984).

[4] Patent and Trademark Office, *Changes to Implement Inter Partes Review Proceedings, Post-Grant Review Proceedings, and Transitional Program for Covered Business Method Patents; Final Rule*, 77 Fed. Reg. 48680, 48693 (Aug. 14, 2012).

[5] Richard Neifeld, "Kill Rate of the Patent Death Squad, and the Elusory Right to Amend in Post-Grant Reviews," *Intellectual Property Today*, (April 2014), at http://www.neifeld.com/pubs/Kill%20Rate%20of%20the%20Patent%20Death%20Squad%20-%20Part%20I.pdf

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