Administrative Law is Influencing Fed. Circ. IPR Cases

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The America Invents Act created new administrative proceedings for challenging the validity of patents, including adversarial *inter partes* review proceedings. The popularity of these proceedings, and the corresponding increase in appeals to the Federal Circuit, has been well documented. The Federal Circuit has affirmed IPR decisions at a high rate. See, e.g., http://www.law360.com/articles/767549.

A review of Federal Circuit decisions in IPR cases shows that the court is reviewing IPR decisions using the standard tools of administrative law. The large number of Federal Circuit affirmances (including a large number of affirmances without opinion) reflects to a great extent the court's deference to the Patent Trial and Appeal Board on factual findings. A high percentage of the reversals reflect the court's application of administrative law principles in these appeals.

The Federal Circuit has a large body of administrative law precedent, but it is concentrated in nonpatent cases. Patent lawyers would do well to follow the court's decisions in these other areas, and keep these principles in mind during IPR proceedings and on appeals.

Merck, Cuozzo and Dell

Three Federal Circuit decisions highlight the importance of administrative law principles in IPR cases. The Federal Circuit's April 26 decisions denying en banc review in the companion appeals Merck & Cie v. Gnosis S.p.A., No. 2014-1779 and South Alabama Medical Science Foundation, Nos. 2014-1778, 2014-1780, and 2014-1781,[1] concerned whether the Federal Circuit should review IPR proceedings under the "clear error" standard applied in appeals from district court decisions, or under the more deferential "substantial evidence" standard applied to administrative proceedings (including appeals from ITC decisions in Section 337 cases).

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A majority of the court agreed with the panel that the administrative "substantial evidence" standard should apply. Four judges supported the view that, given Congress' stated goal of creating district court like proceedings, the court should apply the "clear error" standard. In an opinion by Judge Kathleen O'Malley, three of the judges who supported the "clear error" standard concluded nonetheless that the Federal Circuit was bound to apply the "substantial evidence" standard because IPRs are "agency hearing[s] provided by statute." They referred the issue to Congress or the U.S. Supreme Court for further clarification.

Should the Supreme Court take up Judge O'Malley's invitation, it would not be the first case addressing the intersection of administrative law and IPRs to reach the high court. On April 25, the Supreme Court heard oral argument in Cuozzo Speed Technologies LLC, vs. Lee. One of the issues presented in Cuozzo concerns the standard by which patent claims will be interpreted in IPR proceedings before the PTAB: the "broadest reasonable interpretation" standard, as has traditionally been applied in patent office proceedings, or the Markman/Phillips standard applicable in district court proceedings. That question, too, turns on the proper role of administrative law principles in adversarial IPR proceedings.

A panel majority at the Federal Circuit found that Congress had "implicitly approved the broadest reasonable standard in enacting the AIA," but in the alternative the panel applied the "familiar Chevron framework" and held that the U.S. Patent and Trademark Office had properly exercised its administrative discretion by adopting a reasonable interpretation of the AIA on a point as to which the statute was vague or silent. Judge Pauline Newman dissented on the ground that Congress intended IPR proceedings to provide an administrative alternative to validity challenges in district courts. In her view, the IPR process should track district court proceedings with regard to claim construction, and thus the Markman/Philips standard should apply. The briefing and oral argument in the Supreme Court elaborated on these positions. Whichever way the Supreme Court rules, the result will be that PTAB decisions are reviewed much like the U.S. International Trade Commission's Section 337 cases are today — that is, according to the principles governing adversarial administrative proceedings.

Other Federal Circuit decisions also reveal how administrative law has started to influence the Federal Circuit's patent jurisprudence in new ways. In Dell Inc. v. Acceleron, LLC, Nos. 2015-1513, 1514 (Fed. Cir. Mar. 15, 2016), for example, the Federal Circuit held that the PTAB had denied Acceleron its procedural rights when it held a claim invalid based on a rationale that Dell first offered at the final oral argument in the IPR proceeding: "In this case, the Board denied Acceleron its procedural rights by relying in its decision on a factual assertion introduced into the proceeding only at oral argument, after Acceleron could meaningfully respond. … Yet the Board relied on that basis alone for an essential part of its anticipation ground of decision." Slip Op. at 14. The Court also pointed out that, by allowing Dell to present a new position during oral argument, the PTAB had violated its own Trial Practice Guide. Id. at 13-14. As explained below, the court's decision in Dell followed a line of earlier Federal Circuit decisions in other areas.

The Federal Circuit's Administrative Law Precedents

Merck, Cuozzo, Dell and others demonstrate the importance of administrative law in IPR proceedings.

Fortunately, the Federal Circuit is well positioned to address these issues. While the Federal Circuit is certainly known for its patent law jurisprudence, 55 percent of the court's jurisdiction "consists of administrative law cases." Court Jurisdiction, U.S. Court of Appeals for the Federal Circuit, available at http://www.cafc.uscourts.gov/the-court/court-jurisdiction. Many of the Federal Circuit's most important administrative law decisions have been handed down in cases involving international trade, government contracts, government employment, and veterans' affairs. Attorneys involved in IPR proceedings would be well advised to pay attention to Federal Circuit decisions in these areas as well.

For example, the principles on which the court relied in Dell are well known in Federal Circuit cases. The Federal Circuit has a long history of overturning administrative decisions based on general principles of fairness, including agency decisions based on rationales introduced too late in a proceeding for the parties to address adequately. In Creswell Trading Co. v. United States, 15 F.3d 1054 (Fed. Cir. 1994), the Federal Circuit's opinion included a section entitled "Inherent Procedural Unfairness," in which it chastised the Commerce Department for reaching a decision based on the appellant's failure to produce information the Department previously had deemed "irrelevant."

In Carnival Cruise Lines v. United States, 404 F.3d 1312 (Fed. Cir. 2005), the court upheld Carnival's challenge to the government's assessment of harbor maintenance fees on certain cruises because the government had not provided Carnival with adequate notice that the cruises were subject to the fee. And in NEC Home Elec. v. United States, 54 F.3d 736 (Fed. Cir. 1995), the court overturned a Commerce Department dumping decision for failure to consider evidence NEC properly submitted, and for not providing NEC with a fair opportunity to demonstrate that it was entitled to adjustments to the Department's dumping calculations. Scores of other Federal Circuit cases recognize and apply similar principles that now, per Dell, are important in IPR cases as well.

An increased emphasis on administrative law presents challenges and opportunities for practitioners. As the law now stands, the appeal of an IPR decision on substantive grounds faces a high hurdle — the deference afforded the PTAB on findings of fact. Absent a significant legal error, therefore, reversals of PTAB decisions have been few and far between.

Black letter administrative law, however, sets out procedural requirements that may open IPR decisions to challenges that were not especially relevant in pre-AIA examination proceedings. For example, decades of federal administrative law jurisprudence have established such principles as:

- The familiar Chenery doctrine, which holds that a court may review an agency action only on the "grounds invoked by the agency," and not on new arguments presented for the first time in court. SEC v. Chenery Corp., 332 U.S. 194 (1947); NEC, 54 F.3d at 743.

- An agency must provide reasoned decisions, and in particular must provide an explanation for a departure from its own precedent. See, e.g., Burlington Truck Lines v. United States, 371 U.S. 156 (1962); SKF USA Inc. v. United States, 254 F.3d 1022 (Fed. Cir. 2001).

- An agency must follow its own regulations. Accardi v. Shaughnessy, 347 U.S. 260 (1954); Wagner v. U.S., 365 F.3d 1358, 1361 (Fed. Cir. 2004).

- An agency may not penalize a party for violating a substantive rule, without first providing the party with notice of that rule. Carnival Cruise Lines v. United States, 404 F.3d at 1319; Satellite Broadcasting Co. v. F.C.C., 824 F.2d 1, 3 (D.C. Cir. 1987).

Earlier this month, the court chastised the Commerce Department for adopting a novel procedure in an antidumping case that was contrary to the agency's practice and prior pronouncements. Albemarle Corp. v. United States, Nos. 2015-1288, et al. In a decision that could find its way into an appeal from the decision of an over-taxed PTAB, the court also held that Commerce could not "justify its approach on the ground that [the agency] has a legitimate interest in allocating its own limited resources." Slip Op. at 17. Federal Circuit case law includes discussions of other important procedural rules that will be important in IPR cases before the PTAB and on appeal.

The Supreme Court's decision in Cuozzo may or may not shift the standard by which claims are construed in IPR cases. Likewise, the Merck decisions may provide the Supreme Court with the opportunity to re-shape the standard of review generally applicable to IPR proceedings. Either way, the cases signal the importance of administrative law in IPRs and the review of PTAB decisions in the Federal Circuit. PTAB practitioners should be prepared to spot and preserve administrative errors during IPR proceedings by keeping abreast of developments in administrative law at the Federal Circuit and other courts. These principles will provide appellants with new avenues for victory in patent appeals.

[1] The remaining references are to the opinions in Case No. 14-1779, but the views expressed apply equally to the companion appeal.

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