

Federal Circuit's treatment of alleged APA violations at the PTAB

By Kerry S. Taylor, Esq., Ph.D., and Scott Seeley, Esq., *Knobbe Martens*

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Soon after the Leahy-Smith America Invents Act of 2011 was enacted, the Patent Trial and Appeal Board supplanted the Board of Patent Appeals and Interferences.

The PTAB adjudicates disputes involving the validity of issued patents through inter partes review and other related proceedings before the Patent and Trademark Office.

As administrative determinations, PTAB decisions are subject to review by the U.S. Court of Appeals for the Federal Circuit pursuant to the Administrative Procedure Act.

The APA creates a statutory framework for the judicial regulation of agencies and other administrative bodies.

Under this framework, the APA imparts constitutional safeguards on administrative bodies to ensure that parties receive fair notice of the issues to be decided and a fair opportunity to submit facts and arguments relevant to the agency's determination.

The APA entitles parties before the PTAB to receive adequate notice and an opportunity to respond to the contentions made by the opposing party.

PTAB proceedings are conducted under a compressed timeline; the PTAB is expected to deliver a final written decision within 12 months after instituting review.

As a result, it is not uncommon for a litigant — or even the PTAB — to introduce new art or arguments that leave an opposing party with little time to respond.

When this happens, a party receiving an adverse determination from the PTAB may seek relief by appealing to the Federal Circuit, which may determine that the PTAB violated the party's APA rights.

This expert analysis discusses how the Federal Circuit analyzes claims of violations of the "notice and opportunity to respond" provisions of the APA.

Specifically, it provides an introduction to the APA and a brief outline of the general filing schedule of an IPR.

It also provides several examples of alleged APA violations while outlining factors the Federal Circuit considers in reaching a determination.

WHAT IS THE APA?

The APA provides guidelines for the judicial regulation of agencies and other administrative bodies.

The statute imposes two specific procedural burdens on administrative bodies such as the PTAB.

First, Section 554(b)(3) of the APA, 5 U.S.C.A. § 554(b)(3), says "Persons entitled to notice of an agency hearing shall be timely informed of ... the matters of fact and law asserted."

Second, Section 554(c)(1) of the act, 5 U.S.C.A. § 554(c)(1), requires covered agencies to "give all interested parties opportunity for ... the submission and consideration of facts, arguments, offers of settlement or proposals of adjustment when time, the nature of the proceeding, and the public interest permit."

To comply with these notice-and-opportunity-to-respond provisions, the PTO must provide a fair opportunity for all interested parties to submit facts and arguments relevant to the agency's determination.

As the Federal Circuit explained in *Dell Inc. v. Accelaron LLC*, 818 F.3d 1293 (2016):

The APA imposes particular requirements on the PTO. The agency must "timely inform" the patent owner of "the matters of fact and law asserted," ... must provide "all interested parties opportunity for the submission and consideration of facts [and] arguments ... [and] hearing and decision on notice," ... and must allow "a party ... to submit rebuttal evidence ... as may be required for a full and true disclosure of the facts."

In *Novartis AG et al. v. Torrent Pharmaceuticals Ltd. et al.*, 853 F.3d 1316 (Fed. Cir. 2017), the Federal Circuit summarized the practical implications of these provisions as follows:

The notice and opportunity to be heard provisions of the APA have been applied "to mean that 'an agency may

not change theories in midstream without giving respondents reasonable notice of the change' and 'the opportunity to present argument under the new theory.'"

The Federal Circuit explained in *Belden v. Berk-Tek LLC*, 805 F.3d 1064 (2015), that it can be difficult to discern whether an agency changed theories "in midstream."

Moreover, due to the compacted nature of such proceedings it is not always easy to discern what constitutes "reasonable notice of the change" or an "opportunity to present argument under the new theory."

If a party believes it was denied adequate notice or an opportunity to respond to new art or arguments, it may seek relief by appealing to the Federal Circuit.

GENERAL SCHEDULE OF IPRS AT THE PTAB

Inter partes review proceedings, or IPRs, follow a generally predictable filing schedule.

The schedule gives both the petitioner and patent owner the opportunity to file briefs prior to the PTAB's initial determination of instituting the IPR, and to file post-institution briefs.

Due process issues arise under the APA when either a party or the PTAB raises new issues at a time that leaves the opposing party with an insufficient opportunity to respond.

More specifically, an IPR begins with a petition from the challenger. The patent owner has the right to file a preliminary response to argue against the institution of review.

If the PTAB institutes the IPR based on a finding of a reasonable likelihood that the claims do not meet statutory requirements for patentability, then the patent owner has the right to file a post-institution response to defend the claims.

Likewise, the petitioner has a right to file at least one set of written comments in reply.

Finally, both parties have a right to an oral hearing.

The filing schedule is compressed because the PTAB is expected to hand down its final written decision within 12 months of instituting review.

In view of this compacted filing schedule, due process issues under the APA most commonly arise when:

- The petitioner cites new references or makes new arguments in its reply to the patent owner's post-institution response, or
- The PTAB cites new references or makes new arguments in its final written decision.

The introduction of new art or arguments at these junctures often leaves the patent owner with little time to effectively respond.

Claims of violations of a petitioner's rights are much less frequent.

STATE OF THE LAW: OVERVIEW AND COMMON THEMES

The APA entitles parties before the PTAB to receive adequate notice and an opportunity to respond to the contentions made by the opposing party, and to receive factual findings and arguments adopted by the PTAB.

As such, the APA's protections apply to both patent owner and petitioner, as the Federal Circuit recognized in *SAS Institute Inc. v. ComplementSoft LLC*, 825 F.3d 1341 (2016) and *In re Magnum Oil Tools International Ltd.*, 829 F.3d 1364 (2016).

If a party believes it was denied adequate notice or an opportunity to respond to new art or arguments, it may seek relief by appealing to the Federal Circuit.

To evaluate whether there was a violation of the APA's notice-and-opportunity-to-respond provisions, the Federal Circuit's analysis typically turns on two related issues.

First, the Federal Circuit will consider whether the argument or reference was in fact cited for the first time at the allegedly late juncture, or if instead the purportedly new subject matter is actually contemplated by previously submitted remarks or art.

Second, the Federal Circuit will consider whether the opposing party had an adequate opportunity to respond to the new art or arguments.

It should be noted that Federal Circuit review under the APA requires the party challenging an agency decision to demonstrate the harmfulness of the asserted error; the Federal Circuit will not review alleged APA violations that result in harmless error. *Progressive Cas. Ins. Co. v. Liberty Mut. Ins. Co.*, 625 F. App'x 552 (Fed. Cir. 2015).

An argument or reference will likely be considered "new" if it has not been previously raised. For instance, in *In re Magnum Oil Tools*, the Federal Circuit found that, in its final written decision, the PTAB had adopted a new motivation to combine prior art that had not been previously advanced by either party.

In that case, the Federal Circuit held that Magnum was denied adequate notice or an opportunity to respond to the new rationale for combining the art of record.

Likewise, in *SAS*, the Federal Circuit found that the petitioner's APA rights were violated when the PTAB adopted an initial claim construction in its institution decision but later introduced a distinct new claim construction — one that neither party had proposed — in its final written decision.

In both cases, the Federal Circuit found that the reasoning was new because no party had previously raised the new motivation to combine rationale or new claim construction in their filings.

Conversely, an argument or reference is less likely to be considered new where the subject matter has been previously cited or is contemplated by previous filings.

For instance, in *Novartis AG*, the petitioner challenged the validity of various claims in view of three references.

Although the PTAB's institution decision declined to adopt the third reference as either an anticipatory or primary obviousness reference, the PTAB relied on that third reference in its final written decision.

Nevertheless, the Federal Circuit found no violation of the APA, noting that the initial petition framed the third reference in the same context in which it the PTAB discussed it in its final written decision.

As such, the disputed subject matter was not new, and the patent owner thus had adequate opportunity to respond, the court decided.

As indicated above, a party must also show that it was denied an adequate opportunity to respond to the new subject matter to establish a violation under the APA.

The Federal Circuit will not review alleged violations of the APA where any error was harmless.

The Federal Circuit is likely to find a party was denied an adequate opportunity to respond if the parties did not debate the merits of the purported new art or arguments or if there were no procedural avenues available to do so after the new subject matter was raised.

For instance, in *Dell Inc.* the Federal Circuit found that the appellant was denied an adequate opportunity to respond where the petitioner raised an anticipation argument for the first time at oral argument.

Importantly, that anticipation argument was adopted by the PTAB in its final written decision. The Federal Circuit agreed that it was procedurally improper for the PTAB's final written decision to rely on an anticipation argument that was first raised during oral argument, when the opposing party could no longer meaningfully respond.

Conversely, the Federal Circuit is less likely to find a party was denied adequate opportunity to respond where the parties debated the merits of the issue during the proceeding or where adequate procedural remedies were available to do so.

For instance, in *Belden*, along with the petitioner's reply to the patent owner's post-institution reply, the petitioner submitted a new expert declaration.

In view of the petitioner's new expert declaration, the PTAB found all challenged claims were obvious and thus not patentable.

On appeal to the Federal Circuit, the patent owner asserted it had been denied an adequate opportunity to respond to the new declaration.

The Federal Circuit disagreed, taking special note of the fact that the patent owner had been permitted to cross-examine the expert in question and could move to file up to five pages of non-argumentative observations.

The court held that adequate procedural remedies existed for the patent owner to respond to the contentions contained in the new expert report.

Finally, analysis under the notice-and-opportunity-to-respond prong of the APA is often fact specific due to the unique nature and circumstances of each case.

For instance, in *EmeraChem Holdings LLC v. Volkswagen Group of America Inc.*, 859 F.3d 1341 (2017), the Federal Circuit determined that a violation of the APA occurred when the PTAB relied on a prior art reference that was included in the initial petition for an IPR, but only in general statements concerning obviousness.

Although the reference was identified in the initial petition, the Federal Circuit held that the patent owner was denied adequate notice or an opportunity to respond to arguments based on that reference.

Importantly, the Federal Circuit specifically noted that the detailed, claim-by-claim obviousness chart included in the initial petition did not include the disputed reference in connection with any of the relevant claims and that the institution decision did not cite the reference in connection with the relevant claims.

As such, the Federal Circuit found the patent owner was denied adequate notice or an opportunity to respond to those contentions.

CONSTITUTIONAL PROTECTIONS

In sum, the Federal Circuit not only reviews PTAB decisions, it also considers the constitutional protections that the APA provides.

The Federal Circuit has summarized the APA's notice-and-opportunity-to-respond prong to mean that an agency may not change theories in midstream without giving respondents reasonable notice of the change and the opportunity to present argument under the new theory.

The Federal Circuit typically finds a violation of the notice-and-opportunity-to-respond prong of the APA where the disputed art or arguments were introduced at a juncture where the opposing party did not have adequate notice of the new art or arguments, and was denied an adequate opportunity to respond to the new subject matter.

However, the Federal Circuit will likely not find a violation of the APA where the disputed art or arguments are contemplated by prior filings, or where adequate procedural remedies were available for the complaining party to challenge the new subject matter.

Moreover, the appellant should be prepared to argue that it was prejudiced by the procedural deficiencies; the Federal Circuit will not review alleged violations of the APA where any error was harmless.

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ABOUT THE AUTHORS



Kerry S. Taylor, (L) Ph.D., is a partner in the Orange County, California, office of **Knobbe Martens**. He focuses his practice on inter partes review proceedings,

patent litigation, patent prosecution, strategic planning and counseling relating to infringement and licensing issues, and intellectual property due diligence studies. **Scott Seeley** (R) is an associate in the firm's Seattle office. His practice primarily centers around IP matters relating to biochemistry and molecular biology.

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