

PTAB Strategies and Insights

August 2020



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The PTAB Strategies and Insights newsletter provides timely updates and insights into how best to handle proceedings at the USPTO. It is designed to increase return on investment for all stakeholders looking at the entire patent life cycle in a global portfolio.

This month we cover:

- The PTAB's obligation to address the core issues in dispute; and
- Appeals scrutinize PTAB fee and compensation structure.

We welcome feedback and suggestions about this newsletter to ensure we are meeting the needs and expectations of our readers. So if you have topics you wish to see explored within an issue of the newsletter, please reach out to me.

To view our past issues, as well as other firm newsletters, please [click here](#).

Best,
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FEDERAL CIRCUIT REMANDS BECAUSE PTAB FAILED TO EXPLAIN HOW ITS

DECISION ADDRESSED THE CORE ISSUE UNDER DISPUTE



By: [Trent W. Merrell](#) and [Jason D. Eisenberg](#)

In *Alacritech, Inc. v. Intel Corp.*, Judge Stoll held that under the Administrative Procedure Act (APA) “[the Federal Circuit’s] review of a patentability determination is confined to ‘the grounds upon which the Board actually relied.’”[i] And that under the APA “the agency [has an]... obligation to develop an evidentiary basis for its findings.”[ii] Here, the Patent Trial and Appeal Board’s (“PTAB” or “Board”) final written decision (FWD) was vacated and remanded because it did not “articulate a satisfactory explanation for its action including a rational connection between the facts found and the choice made.”[iii]

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APPEALS RAISE CONSTITUTIONAL CHALLENGE TO PTAB FEE AND COMPENSATION STRUCTURE

By: [Sean C. Flood](#)

Appellants in *New Vision Gaming & Development v. SC Gaming, Inc. f/k/a Bally Gaming, Inc.* [i] and *Mobility Workx, LLC v. Unified Patents, LLC*[ii] challenge the constitutionality of the administrative patent judge (APJ) incentive structure, relying on a Prohibition era decision in *Tumey v. Ohio*, 273 U.S. 510 (1927).[iii]

In that case, the Court struck down an Ohio law that financially rewarded public officials who successfully prosecuted Prohibition cases. In the opinion Chief Justice William Howard Taft wrote that “[e]very procedure which would offer a possible temptation to the average man as a judge... which might lead him not to hold the balance nice, clear and true between the State and the accused, denies the latter due process of law.”[iv]

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Petitioner Intel Corporation, Cavium, LLC, and Dell Inc. (collectively, “Intel”) petitioned for *inter partes* review of certain claims of Alacritech’s U.S. Patent No. 8,131,880 (the ‘880 patent). The entire case hinged on whether the prior art taught a data packet reassembly that takes place in a “network interface,” as opposed to a “central processor.” By the oral hearing stage no one disputed the prior art taught the data packet reassembly.

Yet, although this issue was crystalized in the briefing, the Board’s FWD failed to address whether or not the prior art taught reassembly at the network interface. Acknowledging this failure, Judge Stoll explained that the Federal Circuit “cannot reasonably discern whether the Board followed a proper path in determining that the asserted prior art teaches or suggests the reassembly limitations.”[iv] And the Court held that while the FWD generally addressed the parties arguments and even “favorably” cited petitioner’s arguments and rejected patent owner’s arguments, the Board “did not endorse, adopt, or otherwise suggest that it was persuaded by those arguments, much less explain why it found those arguments persuasive [or not].”[v]

In the end, the Court held that the Board is obligated to “articulate a satisfactory explanation for its action including a rational connection between the facts found and the choice made,” and it did not meet that obligation here.[vi] The only remedy was to remand for the Board to reconsider whether the asserted prior art teaches or suggests the requirement that reassembly takes place in the network interface.”[vii]

Practice Tip: Parties need to critically study the FWD and ensure the Board actually addressed the issue under dispute, and not just generally addressed all the arguments and evidence. And when the Board does not address the issue under dispute, make sure to focus the Court on the prejudice of this failure during the appeal.

[i] *Alacritech, Inc. v. Intel Corp.*, Appeal Nos. 2019-1467 and 2019-1468, slip op. 9 (Fed. Cir. 2020) (citing *TQ Delta v. Cisco Sys., Inc.*, 942 F.3d 1352, 1358 (Fed. Cir. 2019) (quoting *Power Integrations, Inc. v. Lee*, 797 F.3d 1318, 1326 (Fed. Cir. 2015))).

[ii] *Id.* (quoting *Lee*, 277 F.3d at 1344).

[iii] *Id.* at 9-10 (citing *In re NuVasive, Inc.*, 842 F.3d 1376, 1382 (quoting *Motor Vehicle Mfrs. Ass'n v. State Farm Mut. Auto. Ins. Co.*, 463 U.S. 29, 43 (1983))).

[iv] *Id.* at 7.

[v] *Id.* (citing *Pers. Web Techs., LLC v. Apple, Inc.*, 848 F.3d 987, 993 (Fed. Cir. 2017) (rejecting Board's analysis as "inadequate" where it did not "cite, let alone explain or analyze or adopt" the relevant portion of the petition).

[vi] *Id.* at 9 (citing *NuVasive*, 1382).

[vii] *Id.* at 10.

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In that case, the Court struck down an Ohio law that financially rewarded public officials who successfully prosecuted Prohibition cases. In the opinion Chief Justice William Howard Taft wrote that “[e]very procedure which would offer a possible temptation to the average man as a judge... which might lead him not to hold the balance nice, clear and true between the State and the accused, denies the latter due process of law.” [iv]

New Vision Gaming & Development v. SC Gaming, Inc. f/k/a Bally Gaming, Inc.

Appellant New Vision urges the Federal Circuit to reverse two Patent Trial and Appeal Board's (PTAB) covered business method (CBM) reviews, which canceled all claims of two gaming patents. New Vision argues that structural bias at the PTAB violates due process where there exists a "reasonable connection" between a decision to institute and a pecuniary benefit to the APJs. "The average APJ is exposed to unfair influences due to this known connection between the PTAB's fee collection/budget and the need to generate revenue to cover costs, as ... the PTAB is a 'business unit.'" New Vision notes that "[i]f the PTAB's overall workload decreases—through decreased institutions—then the PTAB may very well decrease the PTAB budget and be left with a need for fewer line and Lead APJs." New Vision asserts that, even in the absence of actual bias, APJs lack the judicial independence of Article III judges necessary to address the impermissible appearance of bias.

Mobility Workx, LLC v. Unified Patents, LLC

Appellant Mobility urges the Federal Circuit to reverse a decision invalidating claims in one of its wireless patents. Noting that "the salaries of the [APJs] that decide to institute an *inter partes* review (IPR) proceeding are derived from the filing fees paid by those challenging a patent—approximately half of which gets refunded if there is no institution decision," Mobility argues that substantial revenue for APJ salaries and bonuses is inherently tied to the number of IPR proceedings instituted. "Shockingly, the system works in such a way that bonuses are awarded for deciding against patent holders, and APJs are discouraged from writing dissenting

opinions," Mobility asserts, where "the APJ must ask permission from a Vice Chief APJ to receive any credit for that work."

New Vision and Mobility both also allege that the PTAB is constitutionally flawed because the Office impermissibly combines executive and judicial responsibilities. PTAB leadership positions combine executive responsibilities, overseeing the budget of the PTAB as a "business unit" heavily dependent on institution-generated revenue, while also overseeing AIA decisions to maximize conformity and participating on PTAB institution panels. Thus, both argue, the APJ salary and bonus structure creates impermissible financial incentives for APJs to grant validity reviews that further encroach the Due Process Clause.

New Vision and Mobility premise their arguments on Supreme Court decisions in *Tumey* and in *Ward v. Village of Monroeville*.^[v] In *Tumey*, the Court held Ohio regulations unconstitutional that provided financial interests for local mayors to prosecute individuals accused of violating the Prohibition Act. The regulations provided mayors' bonus pay and municipal funding, using fines from convictions as a source of revenue. The Court found that the mayor's "direct, personal, substantial pecuniary interest" in compensation paid for through the criminal fines violated due process.^[vi] In *Ward*, the Court found a due process violation where the income from fines and fees was a "major part" of the village's income in that it constituted between one-third and one-half of the total budget. "This revenue was of such importance to the village," the Court noted, "that when legislation threatened its loss, the village retained a management consultant for advice upon the problem."^[vii] The arrangement provided a "possible temptation" because "the mayor's executive responsibilities for village finances may make him partisan to maintain the high level of contribution from the mayor's court."^[viii] Thus, the scheme violated due process because there were insufficient procedural safeguards to guarantee a safe trial. As Justice Brennan wrote, "[p]etitioner is entitled to a neutral and detached judge in the first instance."^[ix]

New Vision and Mobility both attempt to distinguish the APJ incentive structure from another Ohio proceeding that was upheld by the Supreme Court in *Dugan v. Ohio* (1927).^[x] Following another Prohibition conviction, the Court found that there was no unconstitutional due process violation posed by the link between fees collected by the mayor and compensation to the mayor for his services as judge. In *Dugan*, the practice was permitted where the mayor was compensated from a general fund to which fine proceeds were deposited.^[xi] The general fund expenditures were controlled by a city commission that included four other people, providing procedural safeguards, and the tie between the mayor and the general fund was sufficiently remote to obviate potential bias.^[xii]

The appellants also distinguish the APJ structure from cases involving a much smaller proportion of funds that were linked to decisions.^[xiii] Moreover, while the Supreme Court's recent decision in *Thryv, Inc. v. Click-to-Call Technologies, LP*^[xiv] largely insulates institution decisions from Federal Circuit review, New Vision argues that the decision magnifies the structural appearance of bias.

There is much discussion that it is possible that the Federal Circuit could remand these cases on alternate grounds. For example, New Vision's appeal requests remand based on Appointments Clause concerns under *Arthrex v. Smith & Nephew*.^[xv] Or, some believe it remains possible that the Federal Circuit may determine that due process issues arise in limited circumstances, such as when an APJ holding a PTAB leadership position plays a role in instituting trial. However, many believe New Vision and Mobility make reasonable arguments demonstrating potential due process and structural bias concerns arising from the APJ incentive structure.

[i] *New Vision Gaming & Development v. SC Gaming, Inc. f/k/a Bally Gaming, Inc.* (Appeal Nos. 2020-1339, -1400)

[ii] *Mobility Workx, LLC v. Unified Patents, LLC* (Appeal No. 2020-1441)

[iii] *Tumey v. Ohio*, 273 U.S. 510 (1927).

[iv] *Tumey*, 273 U.S. at 532.

[v] *Ward v. Village of Monroeville*, 409 U.S. 57, 60 (1972).

[vi] *Tumey*, 273 U.S. at 523.

[vii] *Ward*, 409 U.S. at 58.

[viii] *Id.* at 60.

[ix] *Id.* at 61-62.

[x] *Dugan v. Ohio*, 277 U.S. 61 (1928).

[xi] *Dugan*, 277 U.S. at 65.

[xii] *Id.*

[xiii] *Hirsh v. Justices of Supreme Court of Cal.*, 67 F.3d 708 (9th Cir. 1995); *Commonwealth of N. Mariana Islands v. Kaipat*, 94 F.3d 574 (9th Cir. 1996); *Alpha Epsilon Tau Chapter Housing Association v. City of Berkeley*, 114 F.3d 840 (9th Cir. 1997).
[xiv] *Thryv, Inc. v. Click-to-Call Technologies, LP*, 140 S. Ct. 1367 (2020).
[xv] *Arthrex v. Smith & Nephew*, 941 F.3d 1320 (Fed. Cir. 2019) (on cert).

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