

PTAB Decisions May Face Chenery Attacks At Fed. Circ.

By Jon Wright and William Milliken

Law360, New York (June 29, 2017, 12:57 PM EDT) -- Under the Chenery doctrine — a bedrock principle of administrative law that traces its origin back to the 75-year-old U.S. Supreme Court case for which it is named — a reviewing court may not affirm an agency determination unless the agency adequately explains the reasons motivating that determination. In a series of rulings over the past several months, the U.S. Court of Appeals for the Federal Circuit has employed this doctrine to vacate decisions of the Patent Trial and Appeal Board that the Federal Circuit has viewed as insufficiently reasoned. The doctrine thus presents potential pitfalls for the unwary PTAB practitioner, and potential opportunities for the savvy one.



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The Chenery Doctrine and the APA

Chenery, decided in 1943, was an appeal from a U.S. Securities and Exchange Commission ruling rejecting a proposed reorganization of the Federal Water Service Corporation under the Public Utility Holding Company Act (PUHCA). That statute allowed the SEC to block reorganizations that were, among other things, “detrimental to the public interest.” In holding the reorganization unlawful, however, the SEC had relied on “principles of equity” enumerated in previous Supreme Court cases (rather than, for example, on an interpretation of the language of the PUHCA or on rules or regulations promulgated pursuant to the statute).[1]



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The Supreme Court found that the SEC had misapplied the judicial decisions cited in its order, holding that those cases “d[id] not condemn the[] transactions” at issue.[2] What Chenery is famous for, however, is not that holding, but rather the court’s rejection of an alternative argument raised by the SEC. The SEC had contended that, even if the court disagreed with the agency’s reasoning vis-à-vis the judicial doctrines upon which the agency relied, the court could nonetheless affirm on the ground that the proposed reorganization was “detrimental to the public interest” within the meaning of the PUHCA.[3]

The court firmly rejected that proposition, holding that “[t]he grounds upon which an administrative order must be judged are those upon which the record discloses that its action was based.”[4] When an appellate court reviews a lower court’s legal rulings, the court explained, it may reject the lower court’s reasoning and still yet affirm the decision on other grounds. But the same rule does not obtain when a

court reviews agency action: “an administrative order cannot be upheld unless the grounds upon which the agency acted in exercising its powers were those upon which its action can be sustained.”[5] The court justified its holding in part based on considerations of separation of powers. It explained that the judicial branch’s function is only to review whether the agency had acted lawfully; it is for the agency, not the courts, to make factual findings and apply the law to those findings in the first instance.[6] The court further observed that the judicial branch could adequately exercise its “duty of review” only if the agency “clearly disclosed” the grounds for its decision.[7]

Courts have come to read *Chenery* in conjunction with Section 706 of the later-enacted Administrative Procedure Act.[8] Section 706 requires courts to “set aside agency action, findings, and conclusions found to be,” among other things, “arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law.” The net result, generally speaking, is that courts can conduct meaningful review of agency action only where the agency has explained the reasoning behind its decisions in sufficient detail.[9] If the agency does not, it risks having its decision vacated and the case remanded for the agency to try again — this time with a fuller explanation of the agency’s action. Together, the “*Chenery* doctrine” and Section 706 thus constrain appellate review of agency decisions and impose on an agency a burden to fully explain its decisions.

The Patent Trial and Appeal Board

The Patent Trial and Appeal Board is an administrative body of the U.S. Patent and Trademark Office. It was created by the America Invents Act to review adverse decisions of patent examiners and to conduct derivation proceedings, inter partes reviews and post-grant reviews.[10] For the new proceedings under the AIA, such as inter partes review, the PTAB generally must issue a final decision within one year of the institution of review proceedings.[11] The PTAB, which usually sits in panels of three, reviews briefing, holds oral hearings, and issues final decisions on proceedings before it. Its decisions are ultimately appealable straight to the Federal Circuit.[12] Importantly, any party to the appeal that is “dissatisfied with a decision” — including the prevailing party — may file a single request for rehearing before the PTAB prior to Federal Circuit review if the party believes the board has “misapprehended or overlooked” relevant points in rendering its decision.[13]

To implement the new provisions in the AIA, the USPTO has significantly increased the size of the PTAB over the last five years.[14] By and large, PTAB judges possess exceedingly strong technical subject-matter backgrounds and extensive patent prosecution and/or litigation experience. Largely lacking, especially at this relatively early stage in the PTAB’s existence, are individuals with extensive experience in a judicial role who are familiar with the concept of authoring agency decisions that can stand up to appellate review under both *Chenery* and the APA Section 706. As a consequence, many PTAB panel opinions — even those that reach what is likely the “right” answer — are sparsely or inadequately reasoned, or even incomplete. As we discuss below, such decisions may be subject to attack at the Federal Circuit.

Trends at Federal Circuit

Before the AIA went into effect, the Federal Circuit sometimes took a narrow view of the *Chenery* doctrine. The court held in several cases that it could affirm decisions of the PTAB’s predecessor (the Board of Patent Appeals and Interferences) on alternative grounds where the dispositive issue is purely legal. For example, in *In re Aoyama*, 656 F.3d 1293 (Fed. Cir. 2012), the court held that two patent claims were invalid as indefinite and declined to review the board’s decision that the claims were invalid as anticipated.[15] The court rejected the argument that this disposition of the appeal ran afoul of the

Chenery doctrine, holding that it could “affirm the agency on grounds other than those relied upon in rendering its decision, when upholding the agency’s decision does not depend upon making a determination of fact not previously made by the agency.”[16] In other cases, the court employed a rule akin to the harmless error rule of appellate review, holding that it could affirm the board on alternative grounds where it was clear that the board would reach the same result on remand. For example, in *In re Watts*, 354 F.3d 1362 (Fed. Cir. 2004), the court distinguished Chenery in the context of prior-art rejections when it affirmed the board’s invalidity determination on alternative grounds from those in the final decision. It explained that “[i]n each of our cases refusing to consider new prior art rejections on appeal there was reason to believe that the procedure used or the substance of the decision reached by the Board might have been different upon remand.”[17]

Post-AIA, perhaps in response to the dramatic change in the court’s composition, the Federal Circuit has shown an increasing willingness to use the Chenery principle and the APA to vacate and remand PTAB decisions in cases in which the court feels the agency’s reasoning is deficient. We summarize a couple of recent precedential decisions below.

In *In re Nuvasive Inc.*, 842 F.3d 1376 (Fed. Cir. 2016), the Federal Circuit vacated and remanded a PTAB finding of obviousness in an inter partes review proceeding because the PTAB’s decision was insufficiently reasoned. The court, citing Chenery and § 706, explained that it is impossible for the court to “exercise [its] duty of review” unless the PTAB has an adequate evidentiary basis for its findings and articulates “a rational connection between the facts found and the choice made.”[18] The PTAB had failed to meet that standard in *Nuvasive*, the Federal Circuit held, because it had provided no explanation other than “conclusory statements” as to why a person of ordinary skill in the art would have been motivated to combine the prior art references that allegedly rendered the patent-in-suit obvious.[19]

In the most recent example of this phenomenon, in *Icon Health & Fitness Inc. v. Strava Inc.*, 849 F.3d 1034 (Fed. Cir. 2017), the PTAB had found certain patent claims obvious over various prior art references in an inter parties re-examination proceeding. As to several of the claims, the Federal Circuit, citing *Nuvasive*, held that “the PTAB failed to make the requisite factual findings or provide the attendant explanation” for its obviousness determination, and therefore vacated and remanded “for additional factual findings and explanations” as to those claims.[20] The PTAB had “purported to incorporate by reference arguments drafted by [the patent challenger’s] attorneys,” but the Federal Circuit held that this was insufficient to discharge the PTAB’s duty to adequately explain itself, since “[a]ttorney argument is not evidence.”[21]

These two cases, and other similarly reasoned nonprecedential decisions,[22] provide important feedback from the Federal Circuit to the administrative law judges that form the PTAB. Even if the court may believe that the PTAB reached the “correct” result, the Chenery principle prevents the court from affirming a decision that does not meet the minimum standards imposed by Section 706 of the APA.

Practical Tips

These cases and trends suggest valuable lessons for both prevailing parties and losing parties in inter partes review proceedings before the PTAB. Any party that is “dissatisfied with a decision may file a single request for rehearing without prior authorization from the Board.”[23] Rehearing requests are thus not limited to a losing party, and even a party who has prevailed on every claim can request reconsideration. Both parties should thus carefully analyze the final written decision.

For example, a party who prevails before the PTAB should carefully examine the board's decision and conduct a candid assessment of whether the decision contains adequate fact-finding and legal reasoning. If the decision is deficient in this regard, and if the loser requests rehearing, the prevailing party should consider also asking for rehearing (if time permits), or leave to file a reply (if time has expired). The aim should be producing a PTAB decision that is more fully reasoned and supported, and thus more likely to stand up to appellate review. Conversely, the party that loses before the PTAB should consider arguing on appeal, at least as an alternative to outright reversal, that the agency's decision was insufficiently reasoned and should be vacated and remanded to the PTAB for further consideration. One factor to keep in mind, however, is that there is no established timeframe in which the PTAB is required to rule on requests for rehearing. So a rehearing request from either party could result in significant delay — an outcome that may or may not align with a client's goals.

As explained above, the Federal Circuit has shown itself receptive to Section 706 arguments in recent months, and the Chenery principle makes such arguments even more powerful. So even a party with a relatively weak case on the merits may be able to obtain vacatur and remand and, if circumstances allow, another opportunity to make its case to the PTAB.

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[1] SEC v. Chenery Corp., 318 U.S. 80, 85 (1943).

[2] Id. at 93.

[3] See id. at 91-92.

[4] Id. at 87.

[5] Id. at 95.

[6] Id. at 93-94.

[7] Id. at 94.

[8] See 5 U.S.C. § 706.

[9] See, e.g., Syracuse Peace Council v. FCC, 867 F.2d 654, 676 (D.C. Cir. 1989).

[10] See 35 U.S.C. § 6. The PTAB replaced the former Board of Patent Appeals and Interferences.

[11] 35 U.S.C. § 316(a)(11); 37 C.F.R. § 42.100.

[12] See id. § 141; see also 37 C.F.R. § 90.1.

[13] See id. § 42.71(d); see also id. § 41.79

[14] See, e.g., J. Donald Smith, Patent Public Advisory Committee Quarterly Meeting: Patent Trial and Appeal Board Update (Aug. 14, 2014), at 32, available at https://www.uspto.gov/sites/default/files/about/advisory/ppac/20140814_PPAC_PTABUpdate.pdf (chart showing increase in number of judges from less than 100 to 2010 to over 200 in 2014) J. Randles, Ex-Edwards Wildman Atty One of 7 New PTAB Judges (Sep. 23, 2013), available at <https://www.law360.com/articles/474736/ex-edwards-wildman-atty-one-of-7-new-ptab-judges> (stating that the USPTO has “aggressively hir[ed] new judges to handle [the] flood of new cases brought on by the AIA”); G. Quinn, 8 New PTAB Judges Sworn in at USPTO (Nov. 12, 2012), available at <http://www.ipwatchdog.com/2012/11/12/8-new-ptab-judges-sworn-in-at-uspto/id=29896/> (noting that number of PTAB judges increased from 95 to 175 in 2012 and that the PTAB intended to increase the number further to 225).

[15] *In re Aoyama*, 656 F.3d 1293, 1298 (Fed. Cir. 2012).

[16] *Id.* at 1299 (quoting *In re Comiskey*, 554 F.3d 967, 974 (Fed. Cir. 2009)).

[17] *In re Watts*, 354 F.3d 1362, 1370 (Fed. Cir. 2004).

[18] *In re Nuvasive, Inc.*, 842 F.3d 1376, 1382 (Fed. Cir. 2016)

[19] See *id.* at 1383-85; see also, *Personal Web Techs., LLC v. Apple*, 848 F.3d 987, 989 (Fed. Cir. 2017) (remanding because “the Board did not adequately support its findings that the prior art disclosed all elements of the challenged claims and that a relevant skilled artisan would have had a motivation to combine the prior-art references to produce the claimed . . . inventions with a reasonable expectation of success.”).

[20] *Icon Health & Fitness, Inc. v. Strava, Inc.*, 849 F.3d 1034, 1042 (Fed. Cir. 2017).

[21] *Id.* at 1043.

[22] See, e.g., *Securus Techs., Inc. v. Global Tel*Link Corp.*, --- F. App’x ----, 2017 WL 1458867 (Fed. Cir. Apr. 25, 2017); *Cutsforth, Inc. v. Motive-Power*, 636 F. App’x 575 (Fed. Cir. 2016).

[23] 37 C.F.R. § 42.71(d).