

## Articles

# ADMINISTRATIVE POWER IN THE ERA OF PATENT STARE DECISIS

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### ABSTRACT

*The elaborate adjudicatory proceedings set up by the America Invents Act of 2011 (AIA) have thrust the U.S. Patent and Trademark Office (PTO) squarely into the patent-litigation process. The AIA proceedings, conducted by the newly formed PTO Patent Trial and Appeal Board (PTAB), are now a formidable competitor to district court litigation. The executive branch has further enhanced PTO and PTAB power by vigorously asserting the agency's prerogatives with respect to certain aspects of these proceedings. Despite the formality of the AIA proceedings, the agency's lawyers have steered clear of asking for Chevron deference on legal issues decided in these proceedings. Although the executive branch's caution may reflect the unusual institutional structure of the PTAB, PTAB decisionmaking could be structured in a manner that should, under conventional administrative law principles, merit Chevron deference. In all likelihood, the chief roadblock to Chevron is not formal administrative law but specific challenges within the patent regime. Many judges on the Court of Appeals for the Federal Circuit, which reviews all appeals from PTO decisions, have long been reluctant to apply conventional administrative law. Perhaps more surprisingly, the Supreme Court's recent decisionmaking in the area has emphasized its own earlier cases (including cases predating the Administrative Procedure Act) and stare decisis over conventional administrative law. Given potentially hostile courts, the costs of the PTO leadership*

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*expending the political capital necessary to embed the PTO more fully into the administrative state may exceed the benefits. At best, in those cases where stare decisis is not implicated or is on the agency's side, the PTO may be able to exercise indirect influence on the Court through the Office of the Solicitor General.*

## TABLE OF CONTENTS

Introduction .....	1564
I. The PTAB and Power Assertion .....	1566
A. Power Relative to the District Courts .....	1570
B. Power Relative to the Federal Circuit .....	1573
II. Failure to Ask for <i>Chevron</i> Deference on Legal Determinations Made in Adjudication .....	1581
III. The (Apparent) Limits of Administrative Law .....	1590
IV. PTO Power Assertion: A Cost-Benefit Analysis .....	1596
Conclusion.....	1599

## INTRODUCTION

In 2011, with considerable fanfare, Congress passed, and President Obama signed, the America Invents Act of 2011 (AIA).<sup>1</sup> The AIA, considered by many to be the most significant change to the patent system since the Patent Act of 1952,<sup>2</sup> heeded the call of a broad range of stakeholders to strengthen substantially the powers of the U.S. Patent and Trademark Office (PTO) in reviewing the validity of granted patents.<sup>3</sup> The various post-grant review proceedings set up by the AIA have proved quite popular. The PTO (and, more specifically, its newly created Patent Trial and Appeal Board (PTAB)) are now an important option for not only any actual

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1. Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified as amended in scattered sections of 35 U.S.C.) [hereinafter AIA].

2. Patent Act of 1952, Pub. L. No. 82-593, 66 Stat. 792.

3. Entities that had long endorsed post-grant review included the Federal Trade Commission (FTC), the National Academy of Sciences (NAS), and the American Intellectual Property Law Association (AIPLA). See FED. TRADE COMM'N, *Competition Perspectives on How Procedures and Presumptions Affect Patent Quality*, in TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 23–24 (2003); COMM. ON INTELLECTUAL PROP. RIGHTS IN THE KNOWLEDGE-BASED ECON., BD. ON SCI., TECH., & ECON. POLICY, POLICY & GLOB. AFFAIRS DIV., NAT'L RESEARCH COUNCIL OF THE NAT'L ACADS., A PATENT SYSTEM FOR THE 21ST CENTURY 95–103 (Stephen A. Merrill, Richard C. Levin & Mark B. Myers eds., 2004); AM. INTELLECTUAL PROP. LAW ASS'N, AIPLA RESPONSE TO THE NATIONAL ACADEMIES REPORT ENTITLED "A PATENT SYSTEM FOR THE 21ST CENTURY" 2 (2004).

and potential patent defendants but also interested third parties. Indeed, the PTAB now receives between one hundred and two hundred petitions for invalidity per month.<sup>4</sup> Numerous appeals from final decisions are making their way to the Court of Appeals for the Federal Circuit,<sup>5</sup> and one case, *In re Cuozzo Speed Technologies, LLC*,<sup>6</sup> has already reached the Supreme Court.

In this Article, we assess when, and how, the PTO and its lawyers (both at the PTO and at the Department of Justice (DOJ)) have chosen to exert administrative power, particularly relative to the agency's immediate reviewing court, the Court of Appeals for the Federal Circuit. As we discuss, because the Federal Circuit was set up by Congress in 1982 specifically to review all patent appeals, it has long competed with the PTO for preeminence in patent law. The complex power dynamic between the PTO and the Federal Circuit has already been the subject of considerable scholarship, and the creation of the PTAB adds an important new dimension. The popularity of the PTAB also creates opportunities for power struggles between the agency and certain district courts—most notably (or notoriously) the U.S. District Court for the Eastern District of Texas—that appear quite interested in attracting patent litigation.<sup>7</sup>

We find that the executive branch has been relatively assertive in certain respects but reticent in others. For example, the PTO has aggressively asserted lack of judicial reviewability with respect to the agency's decisions to *institute* post-grant proceedings, and its final decisions on validity have staked out considerable ground in parsing the complex requirements of patent validity. But the PTO has not structured its decisionmaking in a manner that would put it in the strongest position to ask for *Chevron* deference on legal issues decided through adjudication. Indeed, it has not in fact asked for such deference.

In our view, a significant hurdle for the PTO is the Supreme Court's apparent decision to deprioritize administrative law in favor of the stare decisis effect of the Court's cases that predate the rise of the modern administrative state. Accordingly, even though

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4. See U.S. PATENT & TRADEMARK OFFICE, PATENT TRIAL AND APPEAL BOARD STATISTICS 2–3 (2015), <http://www.uspto.gov/sites/default/files/documents/2015-10-31%20PTAB.pdf> [<http://perma.cc/A5T9-DXM5>].

5. See *infra* Part I.B.

6. *In re Cuozzo Speed Techs., LLC*, 793 F.3d 1268 (Fed. Cir. 2015), *cert. granted*, 84 U.S.L.W. 3218 (U.S. Jan. 15, 2016) (No. 15-446).

7. See *infra* notes 31–32 and accompanying text; *infra* Part I.A.

conventional administrative law doctrine might support the agency, the likelihood that the Supreme Court would apply this doctrine is too low to overcome costs associated with issuing the types of decisions entitled to *Chevron* deference. At best, in those cases where stare decisis is not implicated or is on the agency's side, the PTO may be able to exercise indirect influence on the Court through the Office of the Solicitor General (SG).

Part I of this Article outlines the normative rationale for the PTAB, introduces the key proceedings conducted by the PTAB, and discusses mechanisms through which the PTAB has asserted power relative to the district courts and the Federal Circuit. Part II discusses the PTO's failure to ask for *Chevron* deference for legal determinations made in PTAB adjudications. Part III discusses the Supreme Court's apparent decision to emphasize the stare decisis effect of its own prior patent decisions rather than administrative law. Part IV outlines a cost-benefit analysis of a PTO decision to set up and implement a "*Chevron*-ready" regime.

### I. THE PTAB AND POWER ASSERTION

The AIA restructures many aspects of the patent system, including the PTO. With respect to the PTO, the AIA's most important feature is the creation of novel proceedings to review granted patents, with the review to be conducted by a new adjudicatory body within the PTO, the PTAB.<sup>8</sup>

Prior to enactment of the AIA, the major route for correcting errors in the initial decision by the PTO to grant a patent was a challenge to validity by the defendant after the patent owner brought infringement litigation in district court.<sup>9</sup> But several interrelated arguments favor administrative review of validity over review in Article III patent litigation. Perhaps most obviously, Article III

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8. The next four paragraphs rely heavily on Saurabh Vishnubhakat, Arti K. Rai & Jay Kesan, *Strategic Decisions by Parties in Dual PTAB and District Court Proceedings*, 31 BERKELEY TECH. L.J. (forthcoming 2016), [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2731002](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2731002) [<https://perma.cc/25WP-DSM5>].

9. Pre-AIA mechanisms for adversarial administrative review of granted patents were used infrequently and were plagued by delays. See U.S. PATENT & TRADEMARK OFFICE, *INTER PARTES REEXAMINATION FILING DATA 3* (2014), [http://www.uspto.gov/sites/default/files/documents/inter\\_parte\\_historical\\_stats\\_roll\\_up\\_EOY2014.pdf](http://www.uspto.gov/sites/default/files/documents/inter_parte_historical_stats_roll_up_EOY2014.pdf) [<http://perma.cc/6HWG-RC2C>] (stating that from November 29, 1999 through the abolition of such reexamination effective September 30, 2012, fewer than two thousand requests were filed, and that they lasted an average of 39.5 months).

litigation is quite costly. The biennial economic survey of the American Intellectual Property Law Association (AIPLA) indicates that, even for the lowest-stakes category of patent lawsuits (in which less than \$1 million was at risk), median litigation costs have risen from \$650,000 in 2005 to \$700,000 in 2013.<sup>10</sup> And for the highest-stakes lawsuits (in which more than \$25 million was at risk), median litigation costs rose from \$4.5 million to \$5.5 million over the same time period.<sup>11</sup>

The high cost of litigation would be less problematic if these great expenditures produced accurate interpretation and application of the relevant facts and law.<sup>12</sup> As standard economic accounts of procedure have noted, the goal of procedure is the minimization of litigation and error costs.<sup>13</sup> But decisions reached in Article III patent litigation may not be particularly accurate. Because patent law often uses science-based proxies such as “ordinary skill in the art” to tackle relevant legal and economic policy goals,<sup>14</sup> the subject matter of patent law can be highly complex.<sup>15</sup> With the possible exception of

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10. AM. INTELLECTUAL PROP. LAW ASS'N, REPORT OF THE ECONOMIC SURVEY 34 (2013).

11. *Id.*

12. Of course, we do not mean to suggest that a single correct answer will always exist. The subject of legal indeterminacy in particular has been the subject of extensive debate among legal scholars. *See, e.g.*, Brian Leiter, *Legal Indeterminacy*, 1 LEGAL THEORY 481, 481–85 (1995). But in patent law, as in other areas of law, some proportion of factual and legal questions will have determinate answers. *See id.* at 485 (defining an “easy case” as “one in which ‘the facts . . . [of the case] fit the core of the pertinent concept-words of the rule in question [with the result that] the application of the rule is obvious and unproblematic’”).

13. *See generally* Louis Kaplow & Steven Shavell, *Accuracy in the Assessment of Damages*, 39 J.L. & ECON. 191 (1996) (analyzing the behavioral effects of accurate damage calculations on injurers and the injured); Louis Kaplow & Steven Shavell, *Accuracy in the Determination of Liability*, 37 J.L. & ECON. 1 (1994) (analyzing the social utility of marginal improvements in the accuracy of liability determinations).

14. 35 U.S.C. § 103 (2012). Thus, for example, under the language of the patent statute, securing a patent on an invention requires a showing that the patent would not have been “obvious . . . to a person having ordinary skill in the art.” *Id.* The economic intuition behind this inquiry is that if the invention were scientifically or technically obvious to the average scientist or engineer working in the field, it would arise even without the incentive of a patent. As the Supreme Court has noted, applying the nonobviousness standard correctly requires, among other things, that the decisionmaker understand what was contained in the existing relevant scientific literature and how the invention differs from what was contained in the literature. *See Graham v. John Deere Co.*, 383 U.S. 1, 14–19 (1966).

15. *See generally* Arti K. Rai, *Engaging Facts and Policy: A Multi-Institutional Approach to Patent System Reform*, 103 COLUM. L. REV. 1035, 1068–75 (2003) (discussing the technical complexity often involved in applying patent law standards, which “has yielded some questionable jurisprudence”).

judges on the Federal Circuit, judges in the federal courts tend to be generalists who may not have the epistemic orientation necessary to tackle questions at the intersection of law, science, and economic policy.<sup>16</sup> Moreover, district courts have to contend with juries, who may be even less equipped than federal judges to address complex questions of law and science.<sup>17</sup> By contrast, administrative patent judges at the PTAB are required to be “persons of competent legal knowledge and scientific ability.”<sup>18</sup>

Another reason to favor low-cost administrative review, rather than high-cost Article III review, is that patent plaintiffs and defendants have asymmetric incentives. Asymmetric incentives to litigate are built into patent doctrine by the 1971 Supreme Court case, *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*.<sup>19</sup> Under *Blonder-Tongue*'s view of estoppel, a challenger who successfully invalidates a patent eliminates the owner's ability to assert it against anyone.<sup>20</sup> Because successful invalidation necessarily benefits not only the challenger but also all others affected by the patent, including the challenger's own competitors, commentators have persuasively argued that the challenger is providing a public good.<sup>21</sup> By contrast, the challenger who loses is uniquely estopped from challenging the patent again. Although this public good type disincentive may exist in the administrative context as well<sup>22</sup> (and, indeed, exists in certain PTAB proceedings as a consequence of strong estoppel provisions established by Congress), the lower cost of

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16. Peter Lee, *Patent Law and the Two Cultures*, 120 YALE L.J. 2, 4–6 (2010).

17. See generally Mark A. Lemley, *Why Do Juries Decide if Patents Are Valid?*, 99 VA. L. REV. 1673 (2013).

18. AIA § 7, 35 U.S.C. § 6(a) (2012).

19. *Blonder-Tongue Labs., Inc. v. Univ. of Ill. Found.*, 402 U.S. 313 (1971).

20. See *id.* at 350 (finding that a patent invalidity finding creates nonmutual defensive collateral estoppel, so that a patent that is invalid against one party is invalid against the world).

21. See, e.g., Joseph Farrell & Robert P. Merges, *Incentives to Challenge and Defend Patents: Why Litigation Won't Reliably Fix Patent Office Errors and Why Administrative Patent Review Might Help*, 19 BERKELEY TECH. L.J. 943, 952 (2004) (noting the public good problem and further arguing that disincentives to challenge may be created in certain situations involving oligopolistic competition between licensees that all pay sales-based royalties to the patentee).

22. See John R. Thomas, *Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties*, 2001 U. ILL. L. REV. 305, 336. But see Stuart Minor Benjamin & Arti K. Rai, *Who's Afraid of the APA? What the Patent System Can Learn From Administrative Law*, 95 GEO. L.J. 269, 323–28 (2007) (noting that administrative review that relied on *Chevron* deference by the courts rather than estoppel against the patent challenger could substantially reduce collective action problems).

the administrative proceeding reduces the monetary burden placed on the challenger and thus the scale of the disincentive.

In 2011, these arguments in favor of robust administrative review won the day in Congress. The AIA's statutory language confers considerable power to make patent validity determinations on the PTO as a whole and on the PTAB in particular.<sup>23</sup> The three key post-grant proceedings set up by the AIA are *inter partes* review (IPR), which allows validity challenges based on novelty and nonobviousness; covered business method review (CBMR), which allows certain types of business method patents to be challenged on any validity ground; and post-grant review (PGR), which allows a challenge on any validity ground to patent applications filed after March 16, 2013.<sup>24</sup> Because PGR has only recently begun to apply to granted patents, IPRs and CBMRs are currently the most salient proceedings.<sup>25</sup>

Each review proceeds in two steps. First, a three-judge panel of the PTAB, generally selected with an eye to expertise in the area of science or technology involved, decides whether the petition shows either a "reasonable likelihood" that at least one challenged claim would be invalid (in the case of an IPR)<sup>26</sup> or that "it is more likely than not" that at least one challenged claim would be invalid (in the case of a CBMR).<sup>27</sup> If the panel concludes that the petition meets the relevant threshold, the panel institutes review. After institution of review, the panel must generally make the final decision on the patent's validity within one year.<sup>28</sup>

Although questions of infringement are still decided in the courts, an invalidity finding in the context of PTAB proceedings renders the infringement question moot. Moreover, if a PTAB panel finds a patent claim valid, such a decision requires a prior legal determination regarding the scope of the patent (so-called patent

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23. See *infra* notes 39–40 and accompanying text.

24. AIA § 6(a) (providing for IPR); *id.* § 18 (providing for CBMR under the Transitional Program for Covered Business Method Patents); *id.* § 6(d) (providing for PGR).

25. See U.S. PATENT & TRADEMARK OFFICE, *supra* note 4, at 3 (showing that three or fewer PGR petitions were filed monthly).

26. AIA § 6(a), 35 U.S.C. § 314(a) (2012).

27. *Id.* § 6(d), 35 U.S.C. § 324(a) (2012).

28. *Id.* § 6(a), (d), 35 U.S.C. §§ 316(a)(11), 326(a)(11) (2012).

“claim construction”)<sup>29</sup> that should be relevant to judicial infringement findings.<sup>30</sup>

Both the PTO and the PTAB have embraced the power conferred by Congress. In the remainder of this Part we discuss administrative-power assertion relative to district courts as well as power assertion relative to the Court of Appeals for the Federal Circuit. Historically, the main power struggle has been between the PTO and the Federal Circuit. In recent years, however, as many commentators have observed, district courts appear to be competing to attract patent litigation.<sup>31</sup> The most notable (or notorious) example is the U.S. District Court for the Eastern District of Texas, which some argue has deliberately instituted overly plaintiff-friendly procedures to attract patent disputes.<sup>32</sup>

### A. Power Relative to the District Courts

Statutory features that make the PTAB more attractive than district courts for challenging patents have the effect of significantly enhancing PTAB power.<sup>33</sup> Perhaps most notably, from the standpoint of a patent challenger, the AIA’s “preponderance of the evidence” standard for invalidating granted patent claims in post-grant

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29. See, e.g., *Teva Pharms. USA, Inc. v. Sandoz*, 135 S. Ct. 831, 837–39 (2015) (discussing the tenets of patent claim construction).

30. That said, as discussed further below, see *infra* note 39 and accompanying text, to the extent the PTAB uses a claim construction standard that differs from that used in Article III courts, district courts may be reluctant to rely on the PTAB claim construction.

31. See, e.g., J. Jonas Anderson, *Court Competition for Patent Cases*, 163 U. PA. L. REV. 631, 634–36 (2015); Jeanne C. Fromer, *Patentography*, 85 N.Y.U. L. REV. 1444, 1466 n.139 (2010); Daniel M. Klerman & Greg Reilly, *Forum Selling*, 88 S. CAL. L. REV. (forthcoming 2016) (manuscript at 49–50), <http://www.ssrn.com/abstract=2538857> [<https://perma.cc/MJ7E-NDC9>].

32. Anderson, *supra* note 31, at 632–33.

33. Of course, enhancing PTAB power by making it an attractive venue to challenge patents could be viewed as diminishing the power of another institution within the PTO—the examining corps. Indeed, prior to the PTAB’s having issued many decisions, some commentators had expressed concern that, out of solidarity with the examining corps and concern for overall PTO prestige, the PTAB might be reluctant to cancel claims on granted patents. See, e.g., Melissa F. Wasserman, *The Changing Guard of Patent Law: Chevron Deference for the PTO*, 54 WM. & MARY L. REV. 1959, 2013–14 (2013). At least thus far, Wasserman’s concerns have not been borne out. More generally, large agencies like the PTO are highly complex organizations, with potentially conflicting internal constituencies. Administrative law scholars have recently begun to pay significant attention to important divisions within agencies. See, e.g., Neal Kumar Katyal, *Internal Separation of Powers: Checking Today’s Most Dangerous Branch from Within*, 115 YALE L.J. 2314, 2316–18 (2006); Elizabeth Magill & Adrian Vermeule, *Allocating Power Within Agencies*, 120 YALE L.J. 1032, 1036–38 (2011).

administrative reviews is more attractive (because easier to satisfy) than the “clear and convincing evidence” standard used in Article III courts.<sup>34</sup>

The AIA also directs the PTO to establish a cadre of expert administrative judges who are required to process validity challenges to granted patents in a short period of time (generally a year after the initial institution).<sup>35</sup> Expertise, resources, and quick decisionmaking are valuable for the PTAB not only in absolute terms but also because they enhance the case for district court stays of parallel litigation. The AIA also delegates significant rulemaking power over details of post-grant proceedings to the PTO. Specifically, for each of the key post-grant proceedings, the PTO Director must prescribe regulations “establishing and governing” the proceedings.<sup>36</sup> This delegation creates the potential for additional power transfer. So long as PTO regulations do not contradict specific statutory language,<sup>37</sup> these regulations are constrained only by the requirement that they reflect such high-level principles as “the effect of any such regulation on the economy, the integrity of the patent system, the efficient administration of the Office, and the ability of the Office to timely complete proceedings.”<sup>38</sup>

Pursuant to this Congressional authorization, the PTO has implemented regulations that have the effect of transferring power to the PTAB. In certain cases, rules create power by making the proceedings attractive to challengers. For example, PTO rules

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34. Compare AIA § 6(d), 35 U.S.C. § 326(e) (2012) (requiring the statutory “preponderance of the evidence” standard), with *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238, 2242 (2011) (holding that challengers to granted patents must show “clear and convincing evidence” of invalidity in Article III courts).

35. See AIA § 7, 35 U.S.C. § 6(a) (2012); AIA § 6(a), (d), 35 U.S.C. §§ 316(a)(11), 326(a)(11) (2012).

36. 35 U.S.C. §§ 316(a)(2)–(4), 326(a)(2)–(4); see also AIA § 18, 35 U.S.C. § 321 note (2012) (providing that the director “shall issue regulations establishing and implementing a transitional post-grant review proceeding for review of the validity of covered business method patents”).

37. Under conventional administrative law principles, when Congress delegates regulatory power to agencies, the agency cannot issue regulations in contravention of clear statutory language. See *Chevron, U.S.A. Inc. v. Nat. Res. Def. Council, Inc.*, 467 U.S. 837, 842–43 (1984). In the case of the PGR sections of the AIA, certain statutory language is quite specific and clear. For example, either party to a proceeding has a “right to an oral hearing.” 35 U.S.C. §§ 316(a)(10), 326(a)(10). But the statute also employs terms that broaden the regulatory authority of the PTO, such as “what is otherwise necessary in the interest of justice.” *Id.* § 316(a)(5)(B).

38. 35 U.S.C. §§ 316(b), 326(b).

invoking an approach to claim scope known as “broadest reasonable interpretation” (BRI) in the three proceedings creates greater potential for claim invalidity than in district court.<sup>39</sup> The agency’s decision to allow preliminary institutions of review and final decisions to be made by the same panel of judges may also enhance attractiveness to challengers—on this view, judges who have already decided to institute review are likely to find for the challenger.<sup>40</sup>

To be sure, district courts are hardly passive actors in these power dynamics. For PTAB petitioning to be most effective, the district court must be open to staying concurrent litigation. In this regard, the AIA language is not as strong as it could be. Although the AIA does specifically direct district courts to use a standard that favors grants of stay in CBMR proceedings,<sup>41</sup> the statute provides no such direction for IPR proceedings.<sup>42</sup>

Nonetheless, in general, district courts have been reluctant to deny stay motions. In the period since PTAB proceedings began in

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39. See *In re Cuozzo Speed Techs., LLC*, 793 F.3d 1268, 1276–78 (Fed. Cir. 2015), cert. granted, 84 U.S.L.W. 3218 (U.S. Jan. 15, 2016) (No. 15-446); see also *infra* notes 51–62 and accompanying text.

40. Of course, this situation has parallels in Article III litigation. A judge who has decided to grant a preliminary injunction, for example, may be inclined to make a final ruling in favor of the party that secured the preliminary injunction. See Kevin J. Lynch, *The Lock-in Effect of Preliminary Injunctions*, 66 FLA. L. REV. 779, 800–02 (2015).

41. AIA § 18(b)(2). For purposes of “ensur[ing] consistent application of established precedent,” the AIA also provides for immediate interlocutory appeal of the district court’s decision regarding CBMR stays. *Id.*

42. The statute’s more aggressive allocation of power to the PTAB in the context of CBMR proceedings may reflect a view, held by influential members of the enacting Congress, that CBMRs encompass subject matter that should be outside the scope of patent protection in the first place. This view was held by Senators Schumer and Kyl, who proposed a version of the CBMR provision as part of a floor managers’ amendment on March 1, 2011. In his March 2011 Senate floor testimony, Senator Schumer described business method patents as “the bane of the patent world” and castigated the Federal Circuit’s decision in *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*, 149 F.3d 1368 (1998), to allow such patents. 157 Cong. Rec. 3386, 3416 (2011) (statement of Sen. Schumer). Among many senators on the Republican side, positions were equally strong. The Senate Republican Policy Committee’s summary of section 18, introduced into the Congressional Record by Senator Kyl, stated (somewhat inaccurately) that

[r]ecent court decisions, culminating in last year’s Supreme Court decision in *Bilski v. Kappos*, have sharply pulled back on the patenting of business methods, emphasizing that these “inventions” are too abstract to be patentable. In the intervening years, however, PTO was forced to issue a large number of business-method patents, many or possibly all of which are no longer valid. The Schumer proceeding offers a relatively cheap alternative to civil litigation for challenging these patents, and will reduce the burden on the courts of dealing with the backwash of invalid business-method patents.

*Id.* at 3420 (statement of Sen. Kyl).

September 2012 through the end of May 2015, district courts have permanently denied in full only 25.6 percent of stay motions pending IPR and only 20.6 percent of stay motions pending CBMR.<sup>43</sup> Moreover, the Federal Circuit's 2014 decision in *VirtualAgility Inc. v. Salesforce.com, Inc.*<sup>44</sup> states that district courts have very limited discretion to deny stays when all claims asserted in litigation are also under CBMR.<sup>45</sup>

### B. Power Relative to the Federal Circuit

Litigating at the Federal Circuit, the PTO has asserted power relative to the appellate court in at least three major respects. First, the agency has argued that it is entitled to *Chevron* deference for a number of rules governing post-grant proceedings. These include rules that designate the BRI standard for claim construction,<sup>46</sup> that allow decisions regarding preliminary institution of review and final decisions to be made by the same panel,<sup>47</sup> and that allow the PTAB to institute a review on only some of the claims in the petition.<sup>48</sup> Second, the agency has asserted that the AIA effectively insulates the PTAB's preliminary institution of review decisions from judicial review, even when the PTAB's final decision on the merits is later appealed.<sup>49</sup> Third, the agency has asserted its prerogative to define the scope of a CBMR proceeding and has also pushed the envelope in evaluating challenges to patent-eligible subject matter within those proceedings.<sup>50</sup>

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43. Vishnubhakat et al., *supra* note 8 (manuscript at 29).

44. *VirtualAgility Inc. v. Salesforce.com, Inc.*, 759 F.3d 1307 (Fed. Cir. 2014).

45. *Id.* at 1313 (“Under the statutory scheme, district courts have no role in reviewing the PTAB’s determinations regarding the patentability of claims that are subject to CBM proceedings.”).

46. *See, e.g., In re Cuozzo Speed Techs., LLC*, 793 F.3d 1268, 1279 (Fed. Cir. 2015), *cert. granted*, 84 U.S.L.W. 3218 (U.S. Jan. 15, 2016) (No. 15-446) (“Because Congress authorized the PTO to prescribe regulations, the validity of the regulation is analyzed according to the familiar *Chevron* framework.”); *see also infra* Part II (discussing cases invoking *Chevron*).

47. *Ethicon Endo-Surgery, Inc. v. Covidien LP*, 812 F.3d 1023, 1029–30 (Fed. Cir. 2016).

48. *Synopsys, Inc. v. Mentor Graphics Corp.*, Nos. 2014-1516, 2014-1530, 2016 WL 520236, at \*2–3 (Fed. Cir. Feb. 10, 2016).

49. *See, e.g., Brief for Intervenor–Director of U.S. Patent & Trademark Office at 13, Versata Dev. Grp., Inc. v. SAP Am., Inc.*, 793 F.3d 1306 (Fed. Cir. 2015) (No. 2014-1194) (citing 35 U.S.C. § 324(e) to argue that the Federal Circuit lacked jurisdiction to review the PTO Director’s decision to institute a PGR).

50. AIA § 18(a)(1), 35 U.S.C. § 321 note (2012) (“[T]he Director . . . shall issue regulations establishing and implementing a transitional post-grant review proceeding for review of the validity of covered business method patents.”).

The PTO has repeatedly claimed *Chevron* deference for its rules governing post-grant proceedings. In the first decision by the Federal Circuit regarding a patent claim cancellation rendered under the proceedings (in that case in an IPR), the PTO argued that its rulemaking position on claim construction was entitled to the strong deference available under *Chevron*.<sup>51</sup> The Federal Circuit's 2015 majority opinion in the case, *In re Cuozzo Speed Technologies, LLC*,<sup>52</sup> agreed in part with the PTO. In its decision, the Federal Circuit emphasized the PTO's longstanding use of BRI in both pre-grant and post-grant proceedings prior to the AIA, noted that Congress is presumed to legislate against the backdrop of such convention, and stated that Congress implicitly approved BRI in the AIA.<sup>53</sup> But the court also discussed the new rulemaking authority the AIA conferred on the PTO and concluded that, even if Congress did not approve BRI in the AIA, the PTO's rule adopting BRI was reasonable under step two of *Chevron*.<sup>54</sup> Similarly, the Federal Circuit has relied on reasonableness under *Chevron* step two as an alternative ground for supporting PTO positions regarding the composition of institution panels<sup>55</sup> and the selection of claims for institution.<sup>56</sup>

One aspect of the BRI controversy, over whether the agency's rulemaking regarding BRI represents "substantive" rulemaking and thus exceeds its power, echoes prior controversies in which the PTO has been challenged for allegedly exceeding its rulemaking power. Most notably, in the 2009 case *Tafas v. Kappos*,<sup>57</sup> the PTO faced a challenge over proposed rules limiting the ability of applicants to refile rejected patent applications as many times as they wanted.<sup>58</sup> In that case, as in the BRI case, the challenger argued that the PTO's rulemaking authority was purely procedural, with the term "procedural" defined very narrowly.<sup>59</sup> In response to the challenge,

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51. *Cuozzo Speed Techs.*, 793 F.3d at 1279.

52. *In re Cuozzo Speed Techs., LLC*, 793 F.3d 1268 (Fed. Cir. 2015), *cert. granted*, 84 U.S.L.W. 3218 (U.S. Jan. 15, 2016) (No. 15-446).

53. *Id.* at 1277-78.

54. *Id.* at 1278-79.

55. *Ethicon Endo-Surgery, Inc. v. Covidien LP*, 812 F.3d 1023, 1033 (Fed. Cir. 2016).

56. *Synopsys, Inc. v. Mentor Graphics Corp.*, Nos. 2014-1516, 2014-1530, 2016 WL 520236, at \*5 (Fed. Cir. Feb. 10, 2016).

57. *Tafas v. Kappos*, 586 F.3d 1369 (Fed. Cir. 2009).

58. *Id.* at 1371.

59. Brief for Plaintiff-Appellee Triantafyllos Tafas at 17, *Tafas*, 586 F.3d 1369 (arguing that the PTO lacks statutory authority to promulgate substantive rules); Brief for Plaintiff-Appellee

the agency capitulated, and ultimately withdrew the rules limiting refileing.<sup>60</sup> Given the recent background of the *Tafas* case, the agency's willingness to argue that broad rulemaking authority allows it to take an unpopular stance suggests some level of comfort in asserting power.<sup>61</sup> In fact, in its brief (unsuccessfully) opposing certiorari in the *Cuozzo* case, the government argued that "nothing in the AIA's delegation of rulemaking authority limits the agency to 'procedural' rules."<sup>62</sup>

Second, in *Cuozzo* and other cases, the PTO has asserted that the plain language of the AIA prohibits judicial review of PTO decisions to institute post-grant proceedings, even when the agency's final patent validity decision is challenged on appeal.<sup>63</sup> Like its position on BRI, the PTO's strong position against judicial review is quite controversial. Indeed, the Supreme Court granted certiorari on both the judicial review issue and the BRI question.<sup>64</sup>

Third, the agency has been quite assertive with respect to the highly contested issue of what constitutes a covered business method (CBM) subject to CBMR and what constitutes patent-eligible subject matter within these reviews. Section 18(d)(1) of the AIA defines a CBM patent as "a patent that claims a method or corresponding apparatus for performing data processing or other operations used in the practice, administration, or management of a financial product or service, except that the term does not include patents for

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GlaxoSmithKline at 14, *Tafas*, 586 F.3d 1369 (same). According to the challengers, procedural rules were limited to those rules that had no impact on the ability to secure patent rights. See, e.g., Brief for Plaintiff-Appellee Triantafyllos Tafas, *supra*, at 22–25.

60. Dennis Crouch, *USPTO Removes Rule Changes*, PATENTLY-O (Oct. 14, 2009), <http://patentlyo.com/patent/2009/10/uspto-removes-rule-changes.html> [<http://perma.cc/YC77-V3SQ>].

61. In this Article, we do not take on the question of whether the BRI standard is the best approach or even reasonable under step two of *Chevron*. Although the Congressional desire for IPR and CBMR to serve as a substitute for Article III litigation, see *supra* notes 23–24 and accompanying text, might militate in favor of the PTAB using the same claim construction standard as district courts, Congress sent mixed signals by also providing an explicit statutory mechanism for amending claims. AIA § 6(a), 35 U.S.C. § 316(d)(1)(B) (2012).

62. Brief for the Respondent in Opposition at 15, *Cuozzo Speed Techs., LLC v. Lee*, No. 15-446 (U.S. Dec. 11, 2015), 2015 WL 8621635, at \*15.

63. *In re Cuozzo Speed Techs., LLC*, 793 F.3d 1268, 1273 (Fed. Cir. 2015), *cert. granted*, 84 U.S.L.W. 3218 (U.S. Jan. 15, 2016) (No. 15-446). Technically, the *Cuozzo* court's decision on this aspect of the case was limited to IPRs. *Id.* But the statutory language on which the court relied is identical to that which applies to CBMRs and PGRs.

64. *Id.* at 1299 (reporting that five of the eleven judges on the Federal Circuit dissented from the denial of the petition for rehearing en banc).

technological inventions.”<sup>65</sup> Section 18 also directs the PTO to issue regulations that define the term “technological invention.”<sup>66</sup> The relevant legislative history shows that Senators Schumer and Kyl (the sponsors of the CBMR provision) faced opposition to a broad reading of the term “covered business method.”<sup>67</sup>

Even so, the PTO has adopted not only a relatively broad definition but also a definition that gives the agency a fair amount of discretion. PTO rules promulgated pursuant to its section 18 rulemaking authority to define the “technological invention” exclusion state that the agency will consider on a case-by-case basis “whether the claimed subject matter as a whole recites a technological feature that is novel and unobvious over the prior art; and solves a technical problem using a technical solution.”<sup>68</sup>

The PTO has also taken an active stance on the question of what constitutes a “financial product or service” under section 18. Even though Congress did not specifically order the PTO to promulgate regulations, the PTO proceeded to promulgate a regulation restating the language of the statute.<sup>69</sup> In response, the agency received comments stating that it should clarify that the term “financial product or service” was limited to the products developed by the financial *services* industry.<sup>70</sup> The PTO rejected this proposed clarification. In doing so, the agency invoked Senator Schumer’s

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65. AIA § 18(d)(1), 35 U.S.C. § 321 note (2012) (Transitional Program for Covered Business Method Patent); *see also* 37 C.F.R. § 42.301(a) (2014).

66. AIA § 18(d)(2); *see also* 37 C.F.R. § 42.301(b).

67. As discussed earlier, *see supra* note 42, Senators Schumer and Kyl were very opposed to business method patents. The views of Senator Schumer and Kyl were not shared by all those who voted for section 18, however. Other Senate and House members who discussed section 18 (both in support and in opposition) suggested that it would apply only to patents related to the financial industry, as contrasted with business methods more generally. 157 CONG. REC. S9078 (daily ed. June 14, 2011) (reproducing a Chamber of Commerce letter, read into the record by Senator Leahy, stating that CBMR provided “a tailored pilot program which would allow patent office experts to help the court review the validity of *certain* business method patents using the best available prior art as an alternative to costly litigation” (emphasis added)). In subsequent floor commentary delivered in September 2011, immediately before the AIA’s passage (commentary ultimately adopted by the PTO in its rulemaking), Senator Schumer was slightly more modest, stating that section 18 was intended to cover activities “financial in nature, incidental to a financial activity or complementary to a financial activity.” 157 CONG. REC. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer).

68. 37 C.F.R. § 42.301(b).

69. *Id.* § 42.301(a).

70. Transitional Program for Covered Business Method Patents—Definitions of Covered Business Method Patents and Technological Innovation, 77 Fed. Reg. 48,734, 48,735–36 (Aug. 14, 2012).

September 2011 floor statement that the CBMR proceeding broadly encompassed patents claiming activities “that are financial in nature, incidental to a financial activity or complementary to a financial activity.”<sup>71</sup>

Within CBMR proceedings, the PTAB has also been aggressive, particularly with respect to its interpretation of section 101. The first CBMR proceeding appealed to the Federal Circuit, *Versata Development Group, Inc. v. SAP America, Inc.*,<sup>72</sup> involved a PTAB decision to institute a review proceeding over objections by Versata that its patent, which covered methods and apparatus for pricing consumer products and services, was not a CBM patent.<sup>73</sup> After instituting the case, the PTAB then took an assertive stance on the substance, rejecting the relevant claims as ineligible subject matter under section 101 of the patent statute.<sup>74</sup> The PTAB decision was rendered on June 11, 2013,<sup>75</sup> about one month after the Federal Circuit’s famously fractured decision en banc in the patent eligibility case of *CLS Bank International v. Alice Corp. Pty Ltd.*<sup>76</sup> and well before any Supreme Court consideration of the case.

Essentially ignoring the Federal Circuit,<sup>77</sup> PTAB Lead Administrative Judge Michael Tierney’s decision relied heavily on two Supreme Court decisions that promote an aggressive view of section 101 limitations—*Mayo Collaborative Services v. Prometheus Laboratories, Inc.*<sup>78</sup> and *Gottschalk v. Benson.*<sup>79</sup> The decision cited *Prometheus* for the proposition that a claim covering an abstract idea is patent eligible only if it adds “significantly more” to the abstract idea.<sup>80</sup> Applying this *Prometheus* proposition to the case before it, the PTAB determined that “determining a price using organizational and

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71. *Id.* at 48,735 (citing 157 CONG. REC. S5432 (daily ed. Sept. 8, 2011) (statement of Sen. Schumer)).

72. *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, 793 F.3d 1306 (Fed. Cir. 2015).

73. *Id.* at 1311–13.

74. *Id.* at 1313.

75. *SAP Am., Inc. v. Versata Dev. Grp., Inc.*, No. CBM2012-00001, 2013 WL 3167735 (P.T.A.B. June 11, 2013).

76. *CLS Bank Int’l v. Alice Corp. Pty. Ltd.*, 717 F.3d 1269 (Fed. Cir. 2013) (en banc).

77. The panel cites the Federal Circuit’s fractured en banc opinion in *Alice Corp.* only for the proposition that “the Federal Circuit has recognized that it has been especially difficult to apply § 101 properly in the context of computer-implemented inventions.” *SAP Am., Inc.*, 2013 WL 3167735, at \*14.

78. *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 132 S. Ct. 1289 (2012).

79. *Gottschalk v. Benson*, 409 U.S. 63 (1972).

80. *SAP Am., Inc.*, 2013 WL 3167735, at \*14.

product group hierarchies” is an abstract idea.<sup>81</sup> It then cited *Gottschalk v. Benson* for the proposition that implementation on a general purpose computer did not add “significantly more” to the abstract idea.<sup>82</sup>

Similarly, the government brief in *Versata* on appeal to the Federal Circuit—filed in May 2014, more than a month before the Supreme Court had offered any opinion about section 101 issues in the *Alice Corp. Pty. Ltd. v. CLS Bank International*<sup>83</sup> appeal—emphasized that the addition of a general purpose computer to an abstract idea does not make the abstract idea patent eligible.<sup>84</sup> The brief also emphasized that a claim could be abstract even if the claim were “highly specific.”<sup>85</sup> For the latter proposition, the brief cited two sources of support: *Prometheus*’s view that the “law of nature” exception to patentability does not depend on the level of specificity at which the relevant natural law is stated, and the fact that the Supreme Court in *Bilski v. Kappos*<sup>86</sup> had deemed claims to be abstract ideas even though they were drawn to very specific methods of hedging against risk in energy markets.<sup>87</sup>

As it happens, the PTAB opinion and the executive branch brief were strikingly in line with the subsequent Supreme Court decision in *Alice*. At the time, however, the approach the Supreme Court would take was far from clear.

Throughout the *Versata* litigation, the PTO also defended its prerogative to define what constitutes a CBM. With respect to the CBM definition, the executive branch<sup>88</sup> aggressively rejected *Versata*’s claim that the Federal Circuit has jurisdiction even to review the PTAB’s determination regarding what constitutes a CBM.<sup>89</sup> The government highlighted the section of the AIA stating

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81. *Id.* at \*16.

82. *Id.*

83. *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347 (2014).

84. Brief for Intervenor—Director of U.S. Patent & Trademark Office, *supra* note 49, at 51.

85. *Id.* at 52.

86. *Bilski v. Kappos*, 561 U.S. 593 (2010).

87. Brief for Intervenor—Director of U.S. Patent & Trademark Office, *supra* note 49, at 52.

88. Tellingly, the brief was filed by both the PTO and the DOJ’s Civil Appellate Division, and a DOJ lawyer argued the case. *See id.* at 55. At the Federal Circuit level, DOJ lawyers typically get involved when important executive power and administrative law questions are at stake.

89. *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, 793 F.3d 1306, 1315 (Fed. Cir. 2015) (noting that the “USPTO devotes a substantial part of its brief to the argument that this court lacks jurisdiction to review the Director’s decision to institute a post-grant review”).

that PTO Director determinations regarding whether to institute CBMRs are “final and nonappealable.”<sup>90</sup> It argued that nonappealability applies not only to the issue of whether the petitioner has made a threshold showing that “at least 1 of the claims challenged in the petition is unpatentable” but also to the definition of a CBM patent.<sup>91</sup>

Additionally, the government’s brief in *Versata*, invoking administrative law principles of deference, argued that affirmance of the PTAB’s determination was proper even if the Federal Circuit were to determine it had jurisdiction.<sup>92</sup> With respect to the PTAB determination that the *Versata* patent was a “financial product or service,” the government argued this determination was not arbitrary or capricious under section 706(2)(A) of the Administrative Procedure Act (APA).<sup>93</sup> As for the PTAB’s determination that the *Versata* patent did not involve “technological invention,” the government invoked the *Auer v. Robbins*<sup>94</sup> principle that an agency interpretation of its own regulations should be upheld unless the interpretation is plainly erroneous or inconsistent.<sup>95</sup> Specifically, according to the PTO, because the *Versata* patent employed a computer only for generic functions, the agency’s determination that the patent was a CBM met the deferential *Auer* standard.<sup>96</sup>

At the Federal Circuit, the government’s arguments in *Versata* were controversial, and some of them were rejected. The majority opinion, authored by Judge Plager, rejected the government’s view that the AIA cut off judicial review of a PTAB decision to institute

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90. Brief for Intervenor–Director of U.S. Patent & Trademark Office, *supra* note 49, at 24.

91. *See id.* at 16 (discussing the PTO’s argument).

92. *Id.* at 12, 51–52.

93. *Id.* at 25. The government may have been disinclined to argue for the stronger form of deference provided by *Auer v. Robbins*, 519 U.S. 452, 461 (1997), because the PTO’s actual regulation with respect to what constituted a “financial product or service” merely restated the language of the statute. Although *Auer* deference may apply even in that circumstance, use of *Auer* under those conditions has been criticized by both scholars and judges. *See Gonzales v. Oregon*, 546 U.S. 243, 255 (2006) (holding that “the near equivalence of [a] statute and regulation belies the Government’s argument for *Auer* deference”). Interestingly, the patent challenger, SAP, went further than the government, arguing that the PTO position was entitled to deference under step two of *Chevron*.

94. *Auer v. Robbins*, 519 U.S. 452 (1997).

95. *Id.* at 461.

96. Brief for Intervenor–Director of U.S. Patent & Trademark Office, *supra* note 49, at 28. (citing the Supreme Court decision in *Auer* for the proposition that agency interpretation of a regulatory definition is “controlling unless plainly erroneous or inconsistent with the regulation”).

review.<sup>97</sup> Rather, he categorized the PTAB's decision to institute a CBMR as part of the ultimate invalidation inquiry made by the PTAB, and noted that the AIA clearly gave the Federal Circuit reviewing authority over the ultimate invalidation inquiry.<sup>98</sup> Although Judge Plager's argument has vulnerabilities—as Judge Hughes noted in his partial dissent, whether a patent is invalid is quite different from the question of whether a particular institution has authority to determine invalidity<sup>99</sup>—the PTO's muscular argument about unreviewability certainly pushes against the broad presumption of judicial review of agency action.<sup>100</sup> This reviewability question is now before the Supreme Court in the *Cuozzo* case.

The majority opinion in *Versata* did, however, agree with the PTO's position that the *Versata* patent represented a CBM.<sup>101</sup> Additionally, it embraced the principle of “substantial” deference to the PTO's definition of “covered business method,” noting Congress's “broad delegation of rulemaking authority in the establishment and implementation” of CBMR proceedings.<sup>102</sup> Unfortunately, because the opinion did not precisely specify *which* regime of “substantial” deference it was invoking, its value for future decisionmaking by the Federal Circuit is not as robust as it could have been.

Given the PTO's invocation of administrative law in discussing PTO control over CBMR coverage and its assertive actions in interpreting section 101, the government's failure to ask for any deference for this interpretation of section 101 is perhaps surprising. Similarly, in IPR appeals, the PTO has not asked for deference on its legal determinations with respect to novelty or nonobviousness.<sup>103</sup> As discussed in Part II, the PTO has not asked for deference despite a plausible argument that PTAB post-grant proceedings represent formal adjudications. Thus, under the Supreme Court decision in

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97. *Versata Dev. Grp., Inc. v. SAP Am., Inc.*, 793 F.3d 1306, 1319–20 (Fed. Cir. 2015).

98. *Id.* at 1320–22.

99. *Id.* at 1337–43 (Hughes, J., dissenting in part).

100. *See, e.g., Abbott Labs. v. Gardner*, 387 U.S. 136, 141 (1967) (stating that only “clear and convincing evidence” can overcome the presumption of judicial review of agency action).

101. *Versata*, 793 F.3d at 1325.

102. *Id.*

103. Our research has found that, as of September 2015, the Federal Circuit has rendered decisions from appeals of twenty-five final written decisions of the PTAB. To our knowledge, the PTO has not asked for deference on legal issues concerning validity in any of these appeals. Memorandum from Elliot Chen to Arti Rai (Sept. 21, 2015) (on file with the *Duke Law Journal*).

*United States v. Mead Corp.*,<sup>104</sup> legal determinations made by the agency in at least some portion of these reviews are entitled to *Chevron* deference.<sup>105</sup>

The agency's failure to ask for *Chevron* deference on questions of validity, or indeed on any legal determinations made in adjudication (as contrasted with earlier rulemaking), is also puzzling to the extent that the PTAB has been active not only in the area of section 101 but also with respect to other important questions of validity. As Rochelle Dreyfuss has recently argued, the PTAB's decisionmaking provides important suggestions for filling in gaps left by the Supreme Court and Federal Circuit on such central validity questions as the definiteness requirement and nonobviousness.<sup>106</sup>

## II. FAILURE TO ASK FOR *CHEVRON* DEFERENCE ON LEGAL DETERMINATIONS MADE IN ADJUDICATION

As the previous Part highlights, the PTO has sought to assert significant authority under the auspices of the AIA. This assertion of authority has sometimes included taking a leadership position on the legal standards that determine patent validity. So it might seem obvious that the PTO would argue for *Chevron* deference on these positions. But it has not so argued.

The most obvious explanation, and the one presented by John Golden in this Symposium,<sup>107</sup> is that the AIA does not give the PTAB the authority to act with the force of law, so no type of PTAB adjudicatory decision can receive *Chevron* deference.<sup>108</sup> We disagree.

*Mead* held that *Chevron* deference applies when Congress gives agencies authority to make decisions carrying the force of law, and the agency acts on that authority.<sup>109</sup> According to the Court, “[d]elegation of such authority may be shown in a variety of ways, as by an agency’s power to engage in adjudication or notice-and-

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104. *United States v. Mead Corp.*, 533 U.S. 218 (2001).

105. *See infra* Part II.

106. *See generally* Rochelle Cooper Dreyfuss, *Giving the Federal Circuit a Run for Its Money: Challenging Patents in the PTAB*, 91 NOTRE DAME L. REV. 235 (2015) (reviewing recent CBMR, IPR, and PGR decisions and proposing ways of resolving the problems that have arisen under the new AIA procedures).

107. John Golden, *Working Without Chevron: The PTO as Prime Mover*, 65 DUKE L.J. 1655 (2016).

108. *See generally id.* (arguing that PTAB can still exert significant influence over patent law despite not receiving *Chevron* deference under the AIA).

109. *Mead*, 533 U.S. at 226–27.

comment rulemaking, or by some other indication of a comparable congressional intent.”<sup>110</sup> *Mead* elaborated:

It is fair to assume generally that Congress contemplates administrative action with the effect of law when it provides for a relatively formal administrative procedure tending to foster the fairness and deliberation that should underlie a pronouncement of such force. Thus, the overwhelming number of our cases applying *Chevron* deference have reviewed the fruits of notice-and-comment rulemaking or formal adjudication.<sup>111</sup>

*Mead* emphasized that the touchstone is not whether an agency specifically utilizes the notice-and-comment rulemaking procedures laid out in section 553 of the APA or the formal adjudication procedures laid out in sections 556 and 557 of the APA, but rather whether agency processes have sufficient formality and rigor to give them the “force of law.”<sup>112</sup> Indeed, in a footnote following the sentence quoted above, some of the adjudications *Mead* listed as constituting formal adjudications did not meet all the requirements that apply to formal adjudications under the APA.<sup>113</sup> Accordingly, the standard enunciated by *Mead* indicates that courts should consider not whether a given adjudication has every element of the procedural formality required under sections 556 and 557,<sup>114</sup> but whether the agency is conducting a procedure that is roughly comparable in rigor.

The PTAB decisionmaking processes meet this standard. They have a fair amount of formality and rigor. The statute creating the PTAB requires oral hearings, one of the hallmarks of formality.<sup>115</sup> Indeed, the PTAB statute goes beyond sections 556 and 557 by requiring discovery.<sup>116</sup> And the PTO’s implementation of the statute adds to the rigor—for example, by prohibiting *ex parte*

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110. *Id.* at 227.

111. *Id.* at 230.

112. *Id.* at 226–27.

113. *Id.* at 230 n.12; see Golden, *supra* note 107, at 1669–70.

114. The APA requires, *inter alia*, that there be a presiding officer (ALJ) who is relatively independent of the agency and who has general control of the proceeding. 5 U.S.C. § 556(c) (2012). Parties are entitled to present evidence, present rebuttals, and cross examine. *See id.* § 556(d). And the ALJ’s decision must be based on the record. *See id.* § 556(e). The agency must put its case into evidence and subject it to scrutiny, and the ALJ may not go beyond the record in making its final decision. *Id.*

115. *See* AIA § 6(a), (d), 35 U.S.C. §§ 316(a)(10), 326(a)(10) (2012); 5 U.S.C. § 556(d) (providing for oral hearings); Benjamin & Rai, *supra* note 22, at 298.

116. *See* 35 U.S.C. §§ 316(a)(5), 326(a)(5); 5 U.S.C. §§ 556–57 (2012) (not requiring discovery).

communications with PTAB judges and providing for cross examination.<sup>117</sup> Furthermore, as Melissa Wasserman has noted, the statute’s “legislative history clearly shows that Congress understood the Act to ‘convert[] *inter partes* reexamination from an examinational to an adjudicative proceeding’ while establishing a new procedure known as postgrant review that ‘would take place in a court-like proceeding.’”<sup>118</sup> The bottom line is that IPRs, CBMs, and PGRs—the three PTAB procedures with which this Article is concerned—have the indicia of rigor and formality that should satisfy *Mead*’s “force of law” inquiry.<sup>119</sup>

That said, for purposes of *Chevron* deference, formality and rigor are necessary, but they may not be sufficient. A full analysis must also consider whether an agency head needs to be involved.

In most agencies, formal adjudications are conducted by administrative law judges (ALJs), and the ALJs’ determinations are reviewable by agency heads.<sup>120</sup> The ALJs find facts, make legal determinations, and render decisions.<sup>121</sup> The norm is that an ALJ’s decision becomes the decision of the agency unless the agency head reviews the decision and takes further action.<sup>122</sup>

By contrast, as Golden notes, the underlying agency decisions at issue in the cases *Mead* cited as examples of formal adjudication

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117. See 37 C.F.R. § 42.5 (2012) (prohibiting ex parte communications); *id.* § 41.157 (providing for cross-examination).

118. Wasserman, *supra* note 33, at 1983.

119. In a predecessor bill, Congress did decide to delete a provision that would have given plenary rulemaking authority to the PTO. But in our view that 2007 decision is largely orthogonal to whether legal determinations made in the case-by-case PTAB decisionmaking established by the AIA could have the force of law under *Mead*.

120. See *Landry v. FDIC*, 204 F.3d 1125, 1133–34 (D.C. Cir. 2000) (holding that Federal Deposit Insurance Corporation ALJs are not officers because they do not render final decisions); Chris Guthrie, Jeffrey J. Rachlinski & Andrew J. Wistrich, *The “Hidden Judiciary”: An Empirical Examination of Executive Branch Justice*, 58 DUKE L.J. 1477, 1489–90 (2009) (discussing review of ALJs’ decisions).

121. See Guthrie, Rachlinski & Wistrich, *supra* note 120, at 1478 (explaining that ALJs “handle matters in many areas of concern to citizens and society” and “adjudicate massive numbers of individual disputes”).

122. See 5 U.S.C. § 557(b) (2012) (“When the presiding employee makes an initial decision, that decision then becomes the decision of the agency without further proceedings unless there is an appeal to, or review on motion of, the agency within time provided by rule.”); see also 29 U.S.C. § 160(c) (2012) (stating that an NLRB judge hearing evidence “shall issue . . . a proposed report, together with a recommended order” which will become the order of the NLRB and effective if no parties file exceptions within the statutory time period); *infra* notes 129–35 (discussing cases involving agencies in which decisionmaking is not reviewed by the agency head).

entitled to *Chevron* deference were affirmative decisions made by agency heads.<sup>123</sup> The agency heads made the final agency decision, and that decision was appealed to the federal courts.<sup>124</sup>

But these citations in *Mead* do not answer the question of whether *only* adjudications overseen by agency heads and/or treated as precedential by the agency are entitled to *Chevron* deference. The touchstone is the “force of law” inquiry under *Mead*.<sup>125</sup> *Mead* did not address the question of what, if any, involvement by an agency head or binding effect on the agency is necessary for an adjudication to have the force of law. And the Supreme Court has not addressed these questions in any subsequent case.

Tom Merrill and Kristin Hickman have argued for a fairly high bar: “An adjudicatory order should be understood to have the ‘force of law’ . . . only if it is legally binding both inside the agency (that is, binding on other agency personnel) and outside the agency (that is, binding on the parties to the adjudication).”<sup>126</sup> Thus, they suggest that only decisions made or overseen by agency heads, and treated as binding by the agency, are entitled to *Chevron* deference.<sup>127</sup> Cass Sunstein, by contrast, has suggested that adjudications that are binding on the parties (as virtually all adjudications are) have the force of law and thus are entitled to *Chevron* deference under *Mead*.<sup>128</sup>

These dueling interpretations of *Mead* are mirrored in a circuit split on this question. In *Olson v. Federal Mine Safety & Health Review Commission*,<sup>129</sup> the Tenth Circuit, relying on Merrill and Hickman and the agency’s rules (which provided that “[a]n unreviewed decision of [an ALJ] is not a precedent binding upon the Commission”),<sup>130</sup> held that an ALJ’s decision was not entitled to

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123. See Golden, *supra* note 107, at 1670–71.

124. *Id.*

125. United States v. Mead Corp., 533 U.S. 218, 226–27 (2001); see *supra* note 112 and accompanying text.

126. Thomas W. Merrill & Kristin E. Hickman, *Chevron’s Domain*, 89 GEO. L.J. 833, 908 (2001).

127. *Id.*

128. Cass R. Sunstein, *Chevron Step Zero*, 92 VA. L. REV. 187, 222 (2006) (“[A]n agency decision may be taken to have the ‘force of law’ when it is binding on private parties in the sense that those who act in violation of the decision face immediate sanctions.”); see also Lisa Schultz Bressman, *How Mead Has Muddled Judicial Review of Agency Action*, 58 VAND. L. REV. 1443, 1488–90 (2005) (suggesting that an agency’s “practical adherence” to a position is sufficient).

129. *Olson v. Fed. Mine Safety & Health Review Comm’n*, 381 F.3d 1007 (10th Cir. 2004).

130. *Id.* at 1014 (quoting 29 C.F.R. § 2700.72).

*Chevron* deference “because the Commission did not review the ALJ’s decision, and the decision is therefore not binding precedent under the Commission’s rules.”<sup>131</sup> Similarly, the Ninth Circuit has held that the dispositive question is whether the agency “‘intended to issue an interpretation’ of a statute it enforces,”<sup>132</sup> looking to whether the head of an agency indicates that the administrative judge’s decision (there, an immigration judge) creates a precedent for the agency.<sup>133</sup> And in another case involving the decision of an immigration judge, the Second Circuit concluded that a summary affirmance of an immigration judge’s opinion did not “contain[] the sort of authoritative and considered statutory construction that *Chevron* deference was designed to honor.”<sup>134</sup> By contrast, the Eleventh Circuit in *Florida Medical Center of Clearwater, Inc. v. Sebelius* afforded *Chevron* deference to an ALJ decision that was not subject to higher-level review.<sup>135</sup>

Consistent with the position of Merrill and Hickman, as well as the Second, Ninth, and Tenth Circuits, Golden argues that ordinary PTAB decisions that are not reviewed by the PTO Director do not receive *Chevron* deference.<sup>136</sup> Golden’s view has some merit. Although only about one-third of the total cohort of more than 250 PTAB judges hear post-grant trials, that fraction still encompasses more than eighty judges.<sup>137</sup> These judges, who serve on panels of three, receive, and must make decisions on, approximately 150 petitions per month.<sup>138</sup> To some extent, PTAB procedures resemble the sort of uncoordinated decisionmaking process that *Mead* identified as an indicator of decisions that lack the force of law. In *Mead*, the scale of decisionmaking and lack of coordination were more extreme: “[T]o claim that classifications have legal force is to ignore the reality that 46 different Customs offices issue 10,000 to 15,000 of them each year. Any suggestion that rulings intended to have the force of law are being churned out at a rate of 10,000 a year

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131. *Id.*

132. *Lagandaon v. Ashcroft*, 383 F.3d 983, 987 (9th Cir. 2004) (quoting *Hernandez v. Ashcroft*, 345 F.3d 824, 839 n.13 (9th Cir. 2003)).

133. *See Alvarado v. Gonzales*, 449 F.3d 915, 922–23 (9th Cir. 2006).

134. *Lin v. U.S. Dep’t of Justice*, 416 F.3d 184, 189–91 (2d Cir. 2005).

135. *Fla. Med. Ctr. of Clearwater, Inc. v. Sebelius*, 614 F.3d 1276, 1280–81 (11th Cir. 2010).

136. Golden, *supra* note 107, at 1663.

137. PTAB, *State of the Board Presentation on Allocation of Duties Among Judges* (Jan. 11, 2016) (slide on file with authors).

138. *See* U.S. PATENT & TRADEMARK OFFICE, *supra* note 4, at 3.

at an agency's 46 scattered offices is simply self-refuting."<sup>139</sup> *Mead's* reasoning that *Chevron* deference is not warranted for the actions of many different units not supervised by the agency head supports the proposition that *Chevron* deference is inapplicable to routine PTAB decisions that are not specifically supervised by the PTO Director.

But that is not the end of the story. The PTO has promulgated guidelines for designating selected PTAB opinions as precedential and explicitly binding on the PTO.<sup>140</sup> The PTO's guidelines provide that any PTAB judge, the Director, the Deputy Director, the Commissioner for Patents, or the Commissioner for Trademarks can nominate a PTAB opinion to be designated as precedential.<sup>141</sup> If the chief judge considers the opinion an appropriate candidate for designation as precedential, PTAB judges can then vote on the question.<sup>142</sup> Even if a majority votes in favor, however, the Director's agreement is also required.<sup>143</sup>

This process would seem to satisfy the more demanding of the two interpretations of *Mead* outlined above. The agency has created a process by which PTAB opinions are precedential and binding, and the process entails the explicit agreement of the agency head. Notably, the PTO could change the guidelines in ways that would make the fit under *Mead* even stronger. Specifically, the guidelines could be revamped to require a rehearing leading to a precedential opinion. A rehearing would bring in an additional source of legal authority for the guidelines give greater authority to the Director, and ensure that the PTO was in fact crafting a new decision (even if, in cases in which the Director agreed with the original decision, it bore a strong resemblance to the original one).

The proffered legal authority for the existing guidelines states that the Director "has an interest in providing policy direction and in creating binding norms for fair and efficient patent examination"

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139. *United States v. Mead Corp.*, 553 U.S. 218, 223 (2001) (citations omitted).

140. U.S. PATENT & TRADEMARK OFFICE, PATENT TRIAL AND APPEAL BOARD STANDARD OPERATING PROCEDURE 2 (REVISION 9) PUBLICATION OF OPINIONS AND DESIGNATION OF OPINIONS AS PRECEDENTIAL, at pt. III(E), <http://www.uspto.gov/sites/default/files/documents/sop2-revision-9-dated-9-22-2014.pdf> [<http://perma.cc/RCM6-6JAH>] (laying out procedures for the designation of PTAB opinions as precedential, and providing that "[a] precedential opinion is binding authority in subsequent matters involving similar facts or issues").

141. *Id.* pt. II.

142. *Id.* pt. III.

143. *Id.* pt. III(D) ("No opinion may be precedential without concurrency by the Director.").

under 35 U.S.C. §§ 2(b)(2) and 3(a)(2)(A).<sup>144</sup> The latter provision is more relevant, as it provides that “[t]he Director shall be responsible for providing policy direction and management supervision for the Office and for the issuance of patents and the registration of trademarks.”<sup>145</sup> But nothing in either provision explicitly gives the Director authority to make opinions precedential. Such authority is only implicit in § 3(a)(2)(A) making the Director responsible for policy direction for the PTO.

By contrast, the patent statute explicitly grants the Director authority to rehear PTAB decisions, and such rehearing authority more obviously encompasses the ability to treat reheard cases as precedential. Title 35, section 6 of the U.S. Code provides that “[t]he [PTO] Director, the Deputy Director, the Commissioner for Patents, the Commissioner for Trademarks, and the administrative patent judges shall constitute the Patent Trial and Appeal Board,”<sup>146</sup> and that “[e]ach appeal, derivation proceeding, post-grant review, and inter partes review shall be heard by at least three members of the Patent Trial and Appeal Board, who shall be designated by the Director . . . [and] [o]nly the Patent Trial and Appeal Board may grant rehearings.”<sup>147</sup>

What sort of authority does this provision entail for the Director? In answering this question, we are not drawing on a blank slate. The Federal Circuit considered this precise question in *In re Alappat*.<sup>148</sup> This was a pre-PTAB case, and the relevant language referred to the Board of Patent Appeals and Interferences instead of the PTAB.<sup>149</sup> However, except for the substitution of “Patent Trial and Appeal Board” for “Board of Patent Appeals and Interferences” (and the more lofty title of “Director” now given to the PTO head), the language quoted above from 35 U.S.C. § 6 is identical to the relevant language in *Alappat*.<sup>150</sup>

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144. *Id.*

145. 35 U.S.C. § 3(a)(2)(A) (2012).

146. *Id.* § 6(a).

147. *Id.* § 6(c).

148. *In re Alappat*, 33 F.3d 1526 (Fed. Cir. 1994).

149. *See id.* at 1531.

150. From *Alappat*:

In this case, the composition of the Board and its authority to reconsider its own decisions, and the Commissioner’s authority over the Board, are governed by 35 U.S.C. § 7, which reads:

(a) The examiners-in-chief shall be persons of competent legal knowledge and scientific ability, who shall be appointed to the competitive service.

*Alappat* held that this language permitted the Director to review any Board of Patent Appeals and Interferences decision by creating an expanded panel that consisted of the original panel plus the Director and her top lieutenants listed in the statute.<sup>151</sup> In *Alappat*, the Director created an expanded panel consisting of the original three panel members plus five new members (the Director, her deputy, an assistant, and the chair and vice-chair of the board).<sup>152</sup> These five officials voted together to reverse the decision of the now-minority three original panel members.<sup>153</sup> The lead opinion in *Alappat* concluded that the procedure employed by the Director was consistent with the statutory language.<sup>154</sup>

To be sure, this is less control than would exist if the statute flatly stated that the Director could individually review any PTAB decision on her own initiative. But by changing the guidelines to focus on rehearings and by relying on 35 U.S.C. § 6, the Director could give herself greater control over PTAB decisions, both by being able to rehear decisions (good and bad) and by creating an expanded panel with like-minded agency officials. In other words, the Director has the effective ability to accept, modify, or reject panel decisions.

In *Alappat*, the patent applicant raised a due process objection to the procedure employed by the PTO.<sup>155</sup> Although the objection was untimely and the Federal Circuit opinion did not address it, we are skeptical that interpreting the statute to give the agency head the effective ability to review decisions poses a due process concern. To the contrary, the Director's ability to exercise legal and policy control over decisions by ALJs is part of what Ronald Levin has called the

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*The Commissioner, the Deputy Commissioner, the Assistant Commissioners, and the examiners-in-chief shall constitute the Board of Patent Appeals and Interferences.*

(b) The Board of Patent Appeals and Interferences shall, on written appeal of an applicant, review adverse decisions of examiners upon applications for patents and shall determine priority and patentability of invention in interferences declared under section 135(a) of this title. *Each appeal and interference shall be heard by at least three members of the Board of Appeals and Interferences, who shall be designated by the Commissioner. Only the Board of Patent Appeals and Interferences has the authority to grant rehearings.*

35 U.S.C. § 7 (1988) (emphasis added).

*Id.*

151. *Id.* at 1531–32.

152. *Id.*

153. *Id.*

154. *Id.* at 1531–32.

155. *Id.* at 1536.

“standard federal model.”<sup>156</sup> Under this model, the agency head has to be the final arbiter of legal and policy questions at the agency, and therefore decisions by ALJs must always be reviewable by agency heads.<sup>157</sup>

As evidence of the Director’s lack of authority, Golden cites 35 U.S.C. § 141, which provides for appeal of a PTAB decision to the Federal Circuit.<sup>158</sup> In fact, section 141 also provides a right to appeal to patent owners and applicants, but not to the Director.<sup>159</sup> Depriving the Director of the authority to appeal would be a startling omission if the Director had no other way of controlling PTAB outcomes. But, as *Alappat* noted, this omission seems premised upon the Director’s authority to effectively review PTAB decisions.<sup>160</sup>

With all that said, the most striking developments are the dogs that have not barked. Thus far, the PTO has utilized its existing authority to declare PTAB opinions precedential in only three cases.<sup>161</sup> Moreover, the decisions declared precedential in those cases all revolve around questions of institution of post-grant proceedings, which may be unreviewable in any event.<sup>162</sup> This failure to declare opinions precedential occurs despite complaints by the patent bar that PTAB panel opinions on a number of issues are inconsistent.<sup>163</sup>

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156. Ronald M. Levin, *Administrative Judges and Agency Policy Development: The Koch Way*, 22 WM. & MARY BILL OF RTS. J. 407, 412 (2013).

157. *See id.* at 413 (“Models in which administrative judges’ decisions may not be reviewed by agency heads have been widely criticized in the literature.”).

158. Golden, *supra* note 107, at 1667.

159. 35 U.S.C. § 141(a) (2012).

160. *Alappat*, 33 F.3d at 1535:

One also should not overlook the asymmetry of § 141, which grants applicants, but not the Commissioner, the right to appeal a decision of the Board to this court. Since Congress has reenacted § 141 several times since the 1927 debates about the Board’s independence, it is safe to infer that Congress believed the Commissioner did not need a right of appeal in view of his limited control over the Board pursuant to § 7 and in view of his rulemaking authority pursuant to § 6(a).

(citation omitted). The powers to which the court refers in sections 6 and 7 are now contained in sections 2, 3, and 6.

161. *LG Elecs. Inc. v. Mondis Tech., Ltd.*, IPR-2015-00937, 2015 WL 9699396 (P.T.A.B. Sept. 17, 2015); *Westlake Servs. LLC v. Credit Acceptance Corp.*, CBM-2014-00176, 2015 WL 9699417 (P.T.A.B. May 14, 2015); *SecureBuy LLC v. CardinalCommerce Corp.*, No. CBM2014-00035, 2014 WL 1691559 (P.T.A.B. Apr. 25, 2014).

162. *See* 35 U.S.C. § 314(d) (2012); *see also supra* notes 63–64 and accompanying text.

163. *See, e.g.,* Scott McKeown, *PTAB Expanded Panels Are Not by Party Request*, PATENTS POST-GRANT (May 11, 2015), <http://www.patentspostgrant.com/ptab-expanded-panels-are-not-by-request> [<https://perma.cc/JHA6-XEPG>] (“[G]iven the number of decisions issuing from the

As for rehearing, although the PTAB has had rehearings and has constituted expanded panels in some circumstances, the Director has not utilized her rehearing authority for purposes of serving on a panel and thus providing a decisive PTO determination.<sup>164</sup> This inaction occurs despite patent bar complaints regarding a dearth of precedential opinions. And it persists even though declaring an opinion precedential or conducting a rehearing or both would seem to satisfy the more stringent requirements for adjudications to have the force of law and thus be entitled to *Chevron* deference. The tools for greater PTAB consistency and for *Chevron* deference, in other words, are in the Director's hands.

In our view, the limit to the Director using these tools is not formal administrative law as such, but a combination of two factors: the need to expend political capital in generating *Chevron*-ready opinions combined with the possibility that neither the Federal Circuit nor the Supreme Court will be receptive to arguments for *Chevron* deference. We discuss potential political costs associated with generating precedential opinions in Part IV. We turn next to the apparent limits of administrative law within the patent system.

### III. THE (APPARENT) LIMITS OF ADMINISTRATIVE LAW

In 2007, we wrote an article entitled *Who's Afraid of the APA?: What the Patent System Can Learn from Administrative Law*,<sup>165</sup> noting that the Federal Circuit had not applied ordinary administrative principles to patent law.<sup>166</sup> In that article, we highlighted a 1999 Supreme Court case, *Dickinson v. Zurko*,<sup>167</sup> in which the Court held (contrary to the Federal Circuit) that the PTO was an agency subject to review under the standards of the APA.<sup>168</sup> We noted that despite *Zurko*, the Federal Circuit largely adhered to its long tradition of ignoring administrative law.<sup>169</sup>

Since that time (as the discussion in Part I suggests), many judges on the Federal Circuit have continued to be relatively wary of

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PTAB, and the lack of precedential value accorded to the overwhelming majority of them, it is becoming increasingly common to see directly conflicting opinions on legal issues such as privity, real-party-in-interest, evidentiary issues, etc.”).

164. *See id.* (discussing expanded panels that do not include the Director).

165. Benjamin & Rai, *supra* note 22.

166. *Id.* at 284.

167. *Dickinson v. Zurko*, 527 U.S. 150 (1999).

168. *Id.* at 152, 161.

169. Benjamin & Rai, *supra* note 22, at 299–301.

administrative law.<sup>170</sup> Perhaps more notably, the Supreme Court has been similarly wary. The Supreme Court's wariness is striking not only given *Zurko*, but also given developments in other areas that some courts had treated as subject to a special regime—most notably, tax law. For many years, a longstanding jurisprudence treated tax law as an exception to ordinary deference principles, particularly in light of *National Muffler Dealers Association v. United States*,<sup>171</sup> a pre-*Chevron* case in which the Supreme Court had articulated a lower level of deference to IRS legal determinations.<sup>172</sup> But in the 2011 case of *Mayo Foundation for Medical Education & Research v. United States*,<sup>173</sup> the Court squarely held that *Chevron* applied to tax regulations.<sup>174</sup> More generally, we now see significant momentum in favor of applying ordinary principles of administrative law to tax law.<sup>175</sup>

*Zurko* and *Mayo Foundation* notwithstanding, recent Supreme Court opinions in the patent arena have tended to reject standard administrative law principles. These opinions have instead given precedence to a forceful reading of the Court's own pre-APA cases. Thus, for example, in its 2011 *Microsoft Corp. v. i4i Ltd. Partnership*<sup>176</sup> decision, the Supreme Court unanimously held that challenges to PTO patent grants had to prove invalidity by clear and convincing evidence.<sup>177</sup> According to the Court, the 1952 patent statute, which simply states that a granted patent shall be “presumed valid,” in fact

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170. That said, the partial embrace of deference by the panels in *Cuozzo* and *Versata*, see *supra* notes 54, 102, is notable.

171. *Nat'l Muffler Dealers Ass'n v. United States*, 440 U.S. 472 (1979).

172. *Id.* at 477; see Mark E. Berg, *Judicial Deference to Tax Regulations: A Reconsideration in Light of National Cable, Swallows Holding, and Other Developments*, 61 *TAX LAW.* 481, 492–93 (2008) (describing the Court's post-*National Muffler* jurisprudence); Kristin E. Hickman, *The Need for Mead: Rejecting Tax Exceptionalism in Judicial Deference*, 90 *MINN. L. REV.* 1537, 1540 (2006) (noting that several experts on tax law have argued that *Chevron* deference should not apply to Treasury regulations, based on “a belief that the tax area has its own, unique deference tradition represented principally by the Court's pre-*Chevron* opinion in *National Muffler Dealers Association v. Commissioner*”).

173. *Mayo Found. for Med. Educ. & Research v. United States*, 562 U.S. 44 (2011).

174. *Id.* at 55–56. Notably, the Court's opinion in *Mayo Foundation* relied heavily on *Dickinson v. Zurko*. See *id.* at 55.

175. Indeed, two years ago the *Duke Law Journal's* Administrative Law Symposium was devoted to this very topic. See Amandeep S. Grewal, *Taking Administrative Law to Tax*, 63 *DUKE L.J.* 1625, 1625–26 (2014); see generally Stephanie Hoffer & Christopher Walker, *The Death of Tax Court Exceptionalism*, 99 *MINN. L. REV.* 221 (2014) (arguing that the Tax Court should apply ordinary administrative law principles to its review of the IRS).

176. *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238 (2011).

177. *Id.* at 2242.

codifies a 1934 Court statement in *Radio Corp. of America v. Radio Engineering Laboratories, Inc. (RCA)*<sup>178</sup> that clear and convincing evidence is needed to overturn an issued patent.<sup>179</sup> Moreover, because of Justice Cardozo's suggestion in *RCA* that clear and convincing evidence was necessary even when the evidence before the court was "different, at least in form," from evidence before the PTO, the Court in *i4i* held that clear and convincing evidence is necessary even when the challenger brings forward evidence not before the PTO.<sup>180</sup>

To our knowledge, however, although the legislative history does talk about codifying an "existing presumption of validity,"<sup>181</sup> it does not cite *RCA* or provide any indication regarding the specific quantum of evidence that the challenger must provide. Moreover, although the Court in *i4i* states that the term "presumed valid" has a "settled meaning in the common law,"<sup>182</sup> and uses *RCA* as the basis for this settled meaning, settled meaning may differ depending on the Supreme Court cases to which one looks. As we noted in our 2007 article, many Court cases prior to the APA and since the APA have enunciated the boilerplate view that the actions of all administrative agencies are "presumptively valid."<sup>183</sup>

To be sure, in *i4i*, the SG—whom the Court often consults in patent cases<sup>184</sup>—submitted an amicus brief arguing strenuously that Congress had codified *RCA*.<sup>185</sup> The SG may have done so because *RCA* offered a more bright-line defense of the past actions of the PTO than the standard, APA-based approach. As we argued in 2007, standard APA review would have counseled deference to the PTO (probably under an arbitrary and capricious standard) only when the evidence introduced in litigation had previously been presented to the

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178. *Radio Corp. of Am. v. Radio Eng'g Labs., Inc.*, 293 U.S. 1 (1934).

179. *i4i*, 131 S. Ct. at 2243 (relying almost exclusively on a close reading of *RCA*).

180. *Id.* at 2245–46, 2249–51 (citing *RCA*, 293 U.S. at 8).

181. H.R. REP. NO. 82-1923, at 29 (1952).

182. *i4i*, 131 S. Ct. at 2245.

183. Benjamin & Rai, *supra* note 22, at 281 n.53 (quoting *Hynes v. Grimes Packing Co.*, 337 U.S. 86, 101 (1949)).

184. See generally John F. Duffy, *The Federal Circuit in the Shadow of the Solicitor General*, 78 GEO. WASH. L. REV. 518, 538 (2010) (tracing the increasing influence of the SG's Office on the Court's patent jurisprudence since 1994, and noting that "[s]ince 2000, the Solicitor General has enjoyed not only an expanded ability to help in selecting patent cases for Supreme Court review but also an incredible winning streak in getting the Supreme Court to adopt its legal positions in patent cases").

185. Brief for the United States as Amicus Curiae Supporting Respondents at 8–17, *Microsoft Corp. v. i4i Ltd. P'ship*, 131 S. Ct. 2238 (2011) (No. 10-290).

PTO.<sup>186</sup> When evidence had not been presented to the PTO, there would have been no prior PTO review to which the court could defer.<sup>187</sup> By contrast, the SG's argument—largely adopted by the Court—was a bright-line statement regarding the need for clear and convincing evidence that was more likely to yield decisions to uphold the patent.<sup>188</sup>

But even in cases in which the SG has emphasized standard administrative law, the Court has demurred. For example, in *Kappos v. Hyatt*<sup>189</sup> (a case in which the PTO was the petitioner), the SG's brief argued forcefully that standard principles of administrative exhaustion and of deference to agency expertise precluded introducing evidence in a patent applicant's district court challenge to a PTO patent denial that could reasonably have been presented to the PTO previously.<sup>190</sup> The Court specifically rejected the claim that “background principles of administrative law govern the admissibility of new evidence.”<sup>191</sup> It relied instead on a 1884 Supreme Court case, *Butterworth v. United States ex rel. Hoe*,<sup>192</sup> in which the Court had suggested that the relevant provision of the patent statute established proceedings independent from the PTO.<sup>193</sup> The Court stressed *Butterworth* even as it acknowledged another case, *Morgan v. Daniels*,<sup>194</sup> decided just ten years later, in which the Court had stressed the expertise of the PTO as a reason to defer to the agency in rejecting the disappointed applicant's arguments.<sup>195</sup>

Of course, the reason that the Supreme Court is able to cite old precedent is because the patent statute—and judicial interpretation thereof—predates the rise of the modern administrative state.<sup>196</sup>

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186. Benjamin & Rai, *supra* note 22, at 319.

187. *See id.*

188. *See* Brief for Petitioner at 26–28, *Kappos v. Hyatt*, 132 S. Ct. 1690 (2012) (No. 10-1219).

189. *Kappos v. Hyatt*, 132 S. Ct. 1690 (2012).

190. Brief for Petitioner, *supra* note 188, at 12–13.

191. *Hyatt*, 132 S. Ct. at 1696.

192. *Butterworth v. United States ex rel. Hoe*, 112 U.S. 50 (1884).

193. *Hyatt*, 132 S. Ct. at 1698.

194. *Morgan v. Daniels*, 153 U.S. 120 (1894).

195. *See Hyatt*, 132 S. Ct. at 1698–99.

196. The rise of the modern administrative state is generally dated to the implementation of the New Deal in the 1930s, or perhaps the Progressive Era and the New Deal, but either way many decades after the Patent Act of 1836 created the Patent Office. *See, e.g.*, William E. Forbath, *Radicalism and the Modern State: A Critique of Republican Nostalgia*, 21 CORNELL J.L. & PUB. POL'Y 121, 121 (2011) (“The Progressive Era and the New Deal were the decades that witnessed the creation of the modern administrative state in the United States.”); Gillian E.

Moreover, under section 559 of the APA, the statute does “not limit or repeal additional requirements imposed by statute or otherwise recognized by law.”<sup>197</sup> In *Zurko*, the Court held that pre-APA judicial precedent (in that case, precedent regarding the standard of review applicable to review of PTO fact-finding) was not sufficiently clearly established to prevent application of the APA.<sup>198</sup> Since that time, however, the Court appears to have found clear pre-APA precedent that contradicts traditional principles of administrative law.

A call for *Chevron* deference for substantive legal determinations by the PTAB could entail a substantial departure from the emphasis on stare decisis implicit in *i4i* and *Hyatt*. Indeed, to the extent that the Court’s holding regarding *Chevron* deference in *National Cable & Telecommunications Ass’n v. Brand X Internet Services*<sup>199</sup> applies, administrative interpretations of the patent statute could trump prior judicial interpretations unless those prior judicial determinations held that the interpretation in question was the only permissible one. Many commentators have recognized that, under *Brand X*, deference trumps stare decisis.<sup>200</sup>

Of course, *i4i* and *Hyatt* are only two cases, and they only implicitly suggest that the Court will always be convinced of the clear stare decisis effect of its own pre-APA decisions. In its 2015 decision in *Kimble v. Marvel Entertainment, LLC*,<sup>201</sup> however, the Court made explicit its very muscular view of the role of stare decisis in patent law. In *Kimble*, the Supreme Court declined to overrule *Brulotte v.*

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Metzger, *Through the Looking Glass to a Shared Reflection: The Evolving Relationship Between Administrative Law and Financial Regulation*, 78 LAW & CONTEMP. PROBS. 129, 129 (2015) (stating that “administrative law and financial regulation were conjoined in the New Deal’s creation of the modern administrative state”); Jonathan T. Molot, *The Judicial Perspective in the Administrative State: Reconciling Modern Doctrines of Deference With the Judiciary’s Structural Role*, 53 STAN. L. REV. 1, 66 (2000) (observing that the role of administrative agencies “changed dramatically with the rise of the modern administrative state and its expansion during the New Deal”).

197. 5 U.S.C. § 559 (2012).

198. *Dickinson v. Zurko*, 527 U.S. 150, 155–59 (1999).

199. *Nat’l Cable & Telecomms. Ass’n v. Brand X Internet Servs.*, 545 U.S. 967 (2005).

200. For example, Kathryn Watts has made this precise point in an article heading. See Kathryn A. Watts, *Adapting to Administrative Law’s Erie Doctrine*, 101 NW. U. L. REV. 997, 1013 (2007) (“*Brand X*: Allowing *Chevron* to Trump *Stare Decisis*”); see also Richard Murphy, *The Brand X Constitution*, 2007 B.Y.U. L. REV. 1247, 1292 (“[The] duel between *Chevron* deference and *stare decisis* arrived at the Supreme Court in 2005 in *National Cable & Telecommunication Association v. Brand X Internet Services*, and the Court chose deference.”).

201. *Kimble v. Marvel Entm’t, LLC*, 135 S. Ct. 2401 (2015).

*Thys Co.*,<sup>202</sup> a 1964 case that had rejected licensing agreements that levied royalties after the expiration of the patent as per se unlawful.<sup>203</sup> The petitioner in *Kimble* had argued that the economic foundations of *Brulotte* had been undermined and thus that it should be overruled.<sup>204</sup> The majority rejected that argument, holding that it would not overrule *Brulotte*.<sup>205</sup>

What is particularly interesting for our purposes is the degree to which the Court viewed patent law as being relatively immune to the possibility of evolution outside Congress. For example, *Kimble* explicitly rejected the antitrust comparison:

If *Brulotte* were an antitrust rather than a patent case, we might answer [the] questions as *Kimble* would like. This Court has viewed *stare decisis* as having less-than-usual force in cases involving the Sherman Act . . . . But *Brulotte* is a patent rather than an antitrust case, and our answers to [the] questions instead go against *Kimble*. To begin, even assuming that *Brulotte* relied on an economic misjudgment, Congress is the right entity to fix it. By contrast with the Sherman Act, the patent laws do not turn over exceptional law-shaping authority to the courts. Accordingly, statutory *stare decisis*—in which this Court interprets and Congress decides whether to amend—retains its usual strong force.<sup>206</sup>

Notably, as Justice Alito observed in dissent, *Brulotte* “made little pretense of finding support for [its] holding in the language of the [Patent] Act.”<sup>207</sup> The Patent Act had no language regarding postexpiration patent royalties, yet *Brulotte* held that such royalties were per se unlawful.<sup>208</sup>

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202. *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

203. *Kimble*, 135 S. Ct. at 2407–08, 2415.

204. Brief for Petitioners at 36–40, *Kimble v. Marvel Enters., LLC*, 135 S. Ct. 2401 (2015) (No. 13-720).

205. *Kimble*, 135 S. Ct. at 2405. In doing so, the Supreme Court did follow the recommendation of the SG. See generally Brief for the United States as Amicus Curiae Supporting Respondent, *Kimble v. Marvel Enters., LLC*, 135 S. Ct. 2401 (2015) (No. 13-720). That is, as with *i4i*, the Court agreed with the SG’s view that the Court should rely on its own precedents. *Kimble*, 135 S. Ct. at 2415; *Microsoft Corp. v. i4i Ltd. P’ship*, 131 S. Ct. 2238, 2242 (2011). As we noted above, however, the Court rejected a contrary argument by the SG in *Hyatt*. See *Kappos v. Hyatt*, 132 S. Ct. 1690, 1694 (2012). In other words, the common thread in these cases is the Supreme Court relying on its precedents, not deference to the SG.

206. *Kimble*, 135 S. Ct. at 2412–13 (citations omitted).

207. *Id.* at 2415 (Alito, J., dissenting).

208. *Brulotte v. Thys Co.*, 379 U.S. 29, 32 (1964).

#### IV. PTO POWER ASSERTION: A COST-BENEFIT ANALYSIS

In this Article we have focused on two phenomena: the PTO's failure to place itself in the strongest position for receiving *Chevron* deference, and the Supreme Court's frequent reliance on pre-APA cases that it views as definitively deciding the meaning of the current patent statute.

With respect to the former, the PTO has underutilized the tools at its disposal. Although the PTO already has guidelines for designating PTAB opinions as precedential, it rarely uses those guidelines. Moreover, the PTO has not established guidelines that provide the Director maximum ability to review a PTAB decision and oversee the final result. The benefits of such intensive involvement are obvious with respect to PTAB decisions with which the Director disagrees. And even for PTAB decisions with which she agrees, formal administrative law would indicate that the extra steps involved in making opinions precedential, in ordering rehearing, or doing both, significantly increases the chance that the resulting decision will receive *Chevron* deference.

For its part, the Supreme Court has in cases like *i4i* and *Hyatt* failed to apply traditional administrative law doctrine. Instead, it has adhered to opinions decided not only before the enactment of the APA but also, in the *i4i* case, under an earlier version of the relevant patent statute.

We believe PTO behavior is connected, at least in part, to the Supreme Court's approach. To probe further the contours of the relationship, we posit three components of a PTO (and executive branch) cost-benefit analysis on the question of *Chevron* deference: the cost of setting up a *Chevron*-ready regime and implementing it in any given case, the increase in the chance of receiving *Chevron* deference, and the benefit of *Chevron* deference applying.

The costs of setting up a *Chevron*-ready regime vary to some extent depending on whether the PTO wants to invoke its existing system for designating PTAB decisions as precedential or do more. Even within the existing system, the greatly expanded size of the PTAB makes securing the requisite majority agreement of all judges (including judges who do not handle post-grant proceedings) a

challenge.<sup>209</sup> By the same token, changing current voting requirements to streamline the voting process entails its own costs, in terms of the time and energy involved in such a change. If the Director wants to give herself a greater role, and perhaps further strengthen the argument for *Chevron* deference, the costs might be even greater. Their precise magnitude will depend on the extent to which the Director believes she will have to expend political capital in crafting new guidelines.<sup>210</sup>

We turn next to the increase in the chance of receiving *Chevron* deference. There are three possibilities with respect to implementing the existing guidelines, or modifying them to encompass rehearings: first, any such implementation or modification could be unnecessary, because ordinary PTAB decisions will receive *Chevron* deference; second, it could be dispositive, because ordinary PTAB decisions will not receive *Chevron* deference but those designated as precedential or rehearings overseen by the Director will receive *Chevron* deference; or, third, it could be legally meaningless, because neither ordinary PTAB decisions, PTAB decisions designated as precedential, nor post-rehearing opinions will receive *Chevron* deference. Of course, reasonable minds can differ, but as a matter of legal doctrine (and as we discussed in Part II) we think that the second possibility is quite likely.

From the standpoint of the PTO, however, conventional administrative doctrine is not the dispositive consideration. Instead, the agency and its lawyers (both at the PTO and the DOJ) must take note of the Supreme Court's recent lack of interest (and the Federal Circuit's longstanding lack of interest) in applying conventional administrative law principles in the patent context. The problem may be particularly acute with respect to *Chevron*. And on questions of *Chevron*, it appears that patent law may not be the only outlier. The empirical work of William Eskridge and Lauren Baer suggests that

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209. McKeown, *supra* note 163 (noting that precedential opinions are “next to impossible given the requirement of a majority vote of all APJs, including those that are outside of the Trial Section”).

210. As we noted earlier, *supra* note 33, internal divisions within an agency can be quite significant. The costs of implementation of review by the PTO leadership should be relatively low. The PTO leadership presumably already engages in some review of important PTAB decisions as part and parcel of the Director's leadership of the PTO. As in any organization, a key role for the leader is to review the decisions of subordinates for conformity with what she determines to be the organization's goals. If rehearing were part of the Director's review, this rehearing could be translated into a new opinion fairly expeditiously, especially if the new opinion agreed with, and thus built upon, the decision it replaced.

the Supreme Court often fails to apply *Chevron* in many areas of substantive law, even in the standard circumstance in which the organic statute gives the agency rulemaking authority and the agency interprets a statute under the auspices of this authority.<sup>211</sup>

That brings us to the third component—the benefit of *Chevron* deference. Full consideration of the actual impact of *Chevron* on the deference accorded to agencies is beyond the scope of this (and perhaps any) Article, but it bears noting that recent empirical work on the impact of *Chevron* at the Supreme Court is not encouraging. The empirical work of Eskridge and Baer suggests that, at the Supreme Court, win rates under *Chevron* are lower than win rates under seemingly less deferential regimes.<sup>212</sup> The point about win rates, standing alone, is not necessarily meaningful. It could be that agencies are much more aggressive when they know *Chevron* deference will apply, so the lower win rate in *Chevron* cases simply reflects agencies' greater aggressiveness in statutory interpretation in those cases in which they believe *Chevron* will apply. But those win rates, coupled with the finding that the Court often fails to apply *Chevron* at all in cases in which it is applicable, do seem to undercut the value of *Chevron*.<sup>213</sup>

As an alternative to seeking *Chevron* deference to decisions made in adjudications, the PTO could seek indirect influence through the SG. According to Eskridge and Baer, Supreme Court cases frequently invoke arguments made by the SG, especially in technical

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211. William N. Eskridge & Lauren E. Baer, *The Continuum of Deference: Supreme Court Treatment of Agency Statutory Interpretations from Chevron to Hamdan*, 96 GEO. L.J. 1083, 1125 (2008); see generally Richard E. Levy & Robert L. Glicksman, *Agency-Specific Precedents*, 89 TEX. L. REV. 499 (2011) (discussing various agencies for which courts appear to have created agency-specific precedent). Richard Pildes, among others, has argued that differential judicial treatment of diverse agencies is normatively desirable. See Richard Pildes, *Institutional Formalism and Realism in Constitutional and Public Law*, 2013 SUP. CT. REV. 1, 5. For purposes of this short contribution, we do not take a position on the normative question.

212. Eskridge & Baer, *supra* note 211, at 1142–43.

213. Indeed, if agencies cannot be confident that the Court will in fact find *Chevron* relevant, then they cannot be confidently aggressive in situations in which they think *Chevron* applies (because the Court might in fact not apply *Chevron* in such cases). If agencies understand the phenomenon Eskridge and Baer identify, we would not expect them to be much more aggressive when they thought *Chevron* applied, and thus the lower win rate in *Chevron* cases would in fact reflect a deeper weakness in *Chevron*. And, even if agencies have not internalized the phenomenon Eskridge and Baer identify, the inconsistent application of *Chevron*, standing alone, diminishes its value.

areas such as intellectual property.<sup>214</sup> And win rates for the position articulated by the SG in patent cases specifically are impressive.<sup>215</sup> As cases like *Hyatt* illustrate, however, the Court's attachment to stare decisis (or at least purported stare decisis) may trump even the position of the SG.<sup>216</sup>

### CONCLUSION

The APA was a move away from ad hoc applications of standards of review to consistent rules that would apply to all agencies. And *Chevron* was a move toward rigor and consistency; not only would agencies get more deference, but the law would be clear as to when they received deference and when they did not. As is often the case in law, the promise and the reality have been quite different. And that difference has been particularly great with respect to the PTO.

In the AIA, Congress not only gave the PTO enhanced authority (to be implemented in the first instance by the PTAB) but also left in place a statutory scheme under which the PTO could make a strong case for *Chevron* deference. Yet the PTO has not pushed the levers it has available.

Meanwhile, in *Dickinson v. Zurko*, the Supreme Court rebuked the Federal Circuit for failing to apply ordinary principles of administrative law to the PTO, but since then has often found that its precedents construing statutory language control, leaving no role for the APA or *Chevron* deference. More generally, empirical studies have found that the Court often fails to apply *Chevron* in cases in which it is applicable.

In this Article we suggest that these phenomena are related—that the PTO's failure to push for deference may reflect a calculation that the benefits of such a push will be fairly low, because of uncertainty about the Court actually deferring in situations in which it seems appropriate.

In the end, what appears to matter most is what the Court thinks it has already decided. One can be forgiven for concluding that we are operating under a regime in which the agency defers, and the Court decides.

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214. Eskridge & Baer, *supra* note 211, at 1140 (coding seven out of seventeen intellectual property cases as involving “consultative deference” to the views of the SG).

215. See Duffy, *supra* note 184, at 538.

216. See *supra* notes 189–95 and accompanying text.