PATENT POLICY THROUGH ADMINISTRATIVE ADJUDICATION

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The role of the Patent and Trademark Office (PTO) has changed significantly over the past few decades. Starting in the 1980s, Congress gradually expanded the scope of administrative review for issued patents. This trend culminated with the America Invents Act (AIA) in 2011, which allows the PTO to cancel patents through trial-like proceedings. The AIA has made administrative adjudication a viable alternative to district court validity litigation. And as a result, the PTO frequently plays a decisive role in resolving patent disputes.

But with its larger adjudicatory role, the PTO has also been criticized for being unpredictable and inconsistent in its decision-making. This problem is further compounded by unclear standards of review at the Federal Circuit, which has historically been reluctant to defer to the PTO’s policies and legal interpretations. This Article looks at how the PTO uses adjudication to set policy for administrative patent reviews. It explores the historical development of administrative adjudication for patents, the PTO’s relationship with administrative law, and how the agency currently uses adjudication to set policy. The Article also examines why some policy questions at the PTO are better resolved through adjudication instead of rulemaking, and argues the Federal Circuit should give the PTO greater discretion to set policy through adjudication.

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*The views expressed in this Article are the author’s alone, and do not represent the views of any government or private institutions.
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INTRODUCTION

Most music listeners know about iTunes, Spotify, and Pandora. Probably fewer have heard of Sightsound Technologies. That company patented a method of selling music over the Internet in 1993, eight years before Steve Jobs introduced iTunes to the world. Sightsound’s founders tell a compelling tale of how they invented the first online music platform and sought help from the corporate titans of Silicon Valley, only to be spurned by each one. Of course, those corporations eventually realized the value of selling music over the Internet and launched their own online stores without Sightsound. When Sightsound sued for patent infringement, its founders surely would have liked to tell this story to a jury. But in the end, their patent for selling music online was cancelled in a less dramatic fashion, through a written decision issued by administrative judges at the Patent and Trademark Office (PTO).

Over the past few decades, it has become increasingly likely that an issued patent will be invalidated by an administrative panel instead of a judge or

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3 See id.

4 Id.

This trend was accelerated by the America Invents Act (AIA). Within the first five years of the AIA becoming law, the PTO received over 6,900 petitions for AIA reviews, 1,600 of which have reached a decision on the merits. Moreover, the PTO’s Patent Trial and Appeal Board (Board) is often the first tribunal to assess invalidity arguments in patent disputes. Accordingly, the Board frequently takes a decisive role in resolving patent litigation.

For the Board to remain a credible adjudicatory body, it must impose clear standards and procedures for AIA reviews. And yet, although over four years have passed since the first AIA review was decided, the Board still faces persistent criticism that its proceedings are unpredictable and their results inconsistent. To be fair, considering the AIA set up a whole new system of adjudicating patents, there were bound to be open questions within the first few years of its implementation. And the Board’s standards and procedures will likely crystalize more as the Board continues its work under the AIA.

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8 John M. Golden, Working Without Chevron: The PTO as Prime Mover, 65 Duke L.J. 1657, 1696–98 (2016) [hereinafter Golden, Working Without Chevron] (“Provisions for automatic stays of district court litigation while a patent is subject to inter partes or post-grant review effectively provide the PTO with a variant of ‘primary jurisdiction’ when a challenger to a patent files a civil action in district court after or on the same day as the challenger petitions for inter partes or post-grant review.”).

9 Id. at 1698.


11 Bryan Koenig, P.T.A.B. Should Work to Reduce Inconsistencies, Attys Say, Law360 (May 16, 2017), https://www.law360.com/articles/924741/ptab-should-work-to-reduce-inconsistencies-attys-say; Cavanaugh & Stroud, supra note 6, at 58 (describing how lack of guidance from the PTO “result[s] in uncertainty and financial waste . . . increased cost to both parties and reduced likelihood of settlement or agreement”).
Nevertheless, calls for coherent and uniform procedure at the PTO deserve our attention now. Because of the PTO’s significant role in deciding patent validity, its policies and procedures broadly influence patent enforcement. For example, the PTO’s interpretation of “covered business method review” affects which patents related to financial transactions can be challenged for improperly claiming an abstract idea. Other Board policies, such as the standard for amending claims during AIA reviews, dramatically limited the patentees’ options for narrowing their claims to preserve validity until the Federal Circuit intervened to overturn the Board’s rule. Thus far, the PTO has established such rules through a mix of notice-and-comment rulemaking, case-by-case adjudication, and guidance documents.

Given that AIA reviews are formal trial-type proceedings, it would make sense for parties to rely on the Board’s prior opinions for guidance. Indeed, the PTO has signaled that it intends to designate more precedential opinions to maintain consistency across Board panels. However, this Article contends that the PTO is not equipped with the procedural tools it needs to effectively set policy in this manner. Further, the Federal Circuit has become increasingly hesitant towards granting any deference to the PTO’s policy and procedures unless they are established through quasi-legislative rulemaking.

Golden, Working Without Chevron, supra note 8, at 1698 (observing that PTO’s post-issuance proceedings “raise the possibility that court proceedings on such questions should be seen as more supplementary than complementary, thereby helping to call into question the need for as heavy-handed a judicial role as patent law has made traditional”).


This Article looks at how the PTO uses adjudication to set policy. It proceeds in four sections. The first section will examine how the PTO became the adjudicatory body that it is today, as well as the agency’s relationship with administrative law. The PTO’s role in reviewing issued patents is a relatively recent development in the agency’s history, and the confines of the Administrative Procedure Act (APA) have proved to be an awkward fit for the PTO. The second section looks at how the PTO uses adjudication to set policy and procedures for AIA reviews, and surveys the PTO’s tools for maintaining consistency across Board decisions. The third section examines how the Federal Circuit reviews the PTO’s use of adjudication to set agency policy. This Article finds that, despite the increasingly prominent role of the PTO in resolving patent disputes, the Federal Circuit is reluctant to review the PTO’s regulatory authority over AIA reviews under the deferential *Chevron* standard. This uncertainty undermines the PTO’s attempt to set consistent rules and regulations. The fourth section concludes with thoughts on the path forward and a proposal to set more binding precedents through limited intra-agency review of the PTO’s decisions.

I. BACKGROUND

For much of its two-hundred-year history, the PTO’s function was simply to examine patent applications. Once the PTO granted a patent, it generally did not revisit its decision. Unlike agencies such as the EPA or FTC, the PTO did not enforce patent law against private actors. If a patentee discovered an infringer, her recourse was to file a civil suit. The alleged deference regimes to the PTO” but that the Supreme Court “recognized that notice-and-comment rulemaking” is a “strong indicator[] of delegation warranting *Chevron* deference”).


19 Patent interference proceedings were one exception. 35 U.S.C. § 135(b) (2012), amended by Leahy-Smith America Invents Act, Pub. L. No. 112-274, 126 Stat. 2458 (2013). The PTO declared interference proceedings to determine which party, if any, should be awarded a patent when there were multiple inventors with competing claims to the same invention. *Id.* An earlier inventor could trigger an interference with an issued patent by filing his or her own application claiming the same invention within one year of the issued patent being granted. *Id.* Interference proceedings were phased out by the AIA, which simply awarded the patent to the first inventor to file a patent application. Pub. L. No. 112-274, 126 Stat. 2458 (2013).


infringer would in turn try to invalidate the asserted patent in court.22 Starting in the 1980s, the PTO started to creep into the life of issued patents by conducting *ex parte* reexaminations, which were administrative proceedings that could revoke an issued patent.23 And in 1999, Congress created *inter partes* reexaminations to allow for more extensive third-party participation in these administrative proceedings.24 With the AIA’s passage in 2011, the PTO morphed into a full-blown adjudicatory body with hundreds of patent law judges and thousands of cases.25

As the PTO gradually took on more adjudicatory functions, the Federal Circuit faced the implications of the PTO’s new roles. Having to review steadily more appeals from the PTO, the Federal Circuit grappled with whether, and to what extent, the PTO was bound by the Administrative Procedure Act (APA). This section looks at how the PTO became the adjudicatory body it is today, and examines its fraught relationship with administrative law.

A. Marching Towards Administrative Adjudication

With over eight thousand patent examiners, the PTO makes countless decisions every day about the validity of patent applications and their claims.26 The back and forth communications between patent applicants and examiners, however, can hardly be described as adjudication.27 Instead, it is more like a series of negotiations.28 Patent applicants start with broad, sweeping claims that are usually rejected by the examiner.29 And through back and forth amendments and arguments, the applicant eventually pares down the claims to an acceptable scope.30

22 Id. § 282(b).
24 Janis, supra note 6, at 483–84.
25 TRIAL STATISTICS, supra note 7, at 11.
28 Id.
29 Id.
The role of the PTO only started to shift within the last forty years. 31 In 1980, Congress passed the Patent and Trademark Laws Act to create reexamination proceedings, which allowed the PTO to take a second look at issued patents and cancel claims that are not valid. 32 Like the original patent examination process, reexaminations were fundamentally ex parte proceedings between the PTO and the patent owner. 33 A reexamination starts when the patent owner or third-party files a request citing potentially invalidating prior art that raises a “substantial new question of patentability.” 34 Thereafter, a third-party requestor is allowed a single reply to the patent owner’s arguments for patentability. 35 Beyond that, the process looks like the original examination, with back and forth arguments between the PTO and the patent owner. 36 Thus, an accused infringer seeking to invalidate a patent can submit prior art to the PTO in hopes of initiating reexamination, but otherwise has no meaningful role in the proceedings.

For those familiar with current debates about overbroad claims and patent trolls, it may be surprising to learn the initial motivation for reexaminations was to strengthen patent rights by bolstering the validity of issued patents. 37 Congress imagined that reexaminations would allow patent owners to test the validity of their patents at the PTO before litigation, which would in turn reduce the risk of an invalidity finding at trial. 38 This reflects what some


31 See Adamo, supra note 23, at 59.
33 Adamo, supra note 23, at 63–66.
34 Id. at 64–65.
37 Id. at 63 n.26.
38 Id.; For example, the House Report described the purpose of reexaminations as follows:

A new patent reexamination procedure is needed to permit the owner of a patent to have the validity of his patent tested in the Patent office where the most expert opinions exist and at a much reduced cost. Patent office reexamination will greatly reduce, if not end, the threat of legal costs being used to “blackmail” such holders into allowing patent infringements or being forced to license their patents for nominal fees.

commentators call the “curative” model for reexamination proceedings. That is, reexaminations were designed to fix errors from the original examination, and not as a replacement for invalidity litigation. At the time, the Federal Circuit noted that reexaminations were meant to revive “United States industry’s competitive vitality by restoring confidence in the validity of patents issued by the PTO.”

Over the next decades, the reexamination system started to shift away from this curative model. In 1999, Congress created inter partes reexaminations through the American Inventors Protection Act (AIPA). The impetus behind the AIPA was more in line with recent policy drives to remove “bad” patents. Recognizing the limits of an exclusively ex parte system, Congress noted that “[w]ithout even a minimal level of participation of third parties, many patents are now properly issued in areas of technology previously thought to be unpatentable . . . .” Responding to these concerns, Congress created the inter partes reexamination system to allow third parties to request and participate in reexaminations.

In an inter partes reexamination, third-party challengers could submit prior art and respond to each of the patent owner’s arguments. Like in ex parte reexaminations, an inter partes reexamination also starts when a party files a request that identifies relevant prior art. If the examiner believes the petition raises a substantial new question of patentability, then it will institute reexamination. But unlike in an ex parte reexamination, the third-party requestor can submit written comments each time the patent owner files a response to the PTO. Thus, third-party challengers can rebut the patent owner’s arguments instead of relying on the patent examiner.

39 Janis, supra note 6, at 486 n.23.
40 Id.
41 Patlex Corp. v. Mossinghoff, 758 F.2d 594, 601 (Fed. Cir. 1985).
42 See Janis, supra note 6, at 486 n.23.
45 Id.
47 See Adamo, supra note 23, at 63–65.
49 See id. § 2616.
Still, *inter partes* reexaminations bore little resemblance to trial-like adjudications. A patent examiner, rather than an administrative judge, evaluated the claims and arguments.\(^{51}\) And although parties could submit expert affidavits, they did not have a right to cross-examine witnesses.\(^{52}\) Moreover, before the statute was amended in 2002, the AIPA allowed patent owners to appeal an adverse decision to the Federal Circuit, but not third-party requestors.\(^{53}\) Because of these procedural shortcomings, *inter partes* reexaminations were initially very unpopular. The PTO projected that it would receive 600 requests within the first five years after the AIPA.\(^{54}\) Instead, it received only fifty-three requests.\(^{55}\) The number of requests gradually increased over the next decade, reaching 530 annual requests for *inter partes* reexamination in 2012.\(^{56}\)

In the meantime, a rising chorus against perceived abuses in the patent system prompted Congress to act again by passing the America Invents Act in 2011.\(^{57}\) The AIA was the most significant expansion of the PTO’s power to revoke issued patents yet. In place of *inter partes* reexamination, the AIA created three new proceedings to review issued patents: *inter partes* review (IPR), post-grant review (PGR), and covered business method review (CBMR).\(^{58}\) The overall procedure for each proceeding is similar, and this Article refers to them collectively as AIA reviews.

In many ways, the AIA completed the shift from a curative model of *ex parte* reexaminations to what commentators call a “litigation avoidance” model.\(^{59}\) Unlike a curative model, a litigation avoidance model “channel[s] validity disputes away from the courts altogether. A patent revocation system based on this model would presumably mimic and improve on validity

\(^{51}\) MPEP, *supra* note 48, § 2636.

\(^{52}\) Abbott Labs. v. Cordis Corp., 710 F.3d 1318, 1327 (Fed. Cir. 2013) (“The PTO’s regulations for inter partes reexaminations make no provision for either party to take depositions.”).


\(^{55}\) U.S. PATENT AND TRADEMARK OFFICE, REPORT TO CONGRESS, *supra* note 54.


\(^{58}\) *Id.* §§ 6, 18.

\(^{59}\) Janis, *supra* note 6, at 486 n.23.
litigation in court; there would be no need to make such a system look like original examination."60 That certainly seemed to have been one goal of the AIA.61 The House Committee on the Judiciary noted the AIA aimed to "convert[] inter partes reexamination from an examinational to an adjudicative proceeding."62 Procedurally, the AIA reviews look more like litigation as well. A panel of administrative patent judges from the newly created Patent Trial and Appeal Board presides over each case.63 The parties present arguments, submit witness testimony, and take part in an oral hearing.64 AIA reviews also allow for limited discovery, which includes the right to cross-examine witnesses submitting affidavits in a deposition.65

Unlike inter partes reexaminations, AIA reviews prompted a sea change in the PTO and for patent enforcement generally. The PTO received over 6,900 petitions in the first five years alone.66 By comparison, the PTO received less than 2,000 requests for inter partes reexamination over the entire thirteen years that the procedure was available.67 Now with over 270 administrative patent judges managing AIA reviews, the PTO has expanded well beyond its traditional role of examining patents and has transformed into a full-blown adjudicatory body.68

B. The PTO’s Relationship with Administrative Law

Initially, the PTO existed alongside only a handful of other administrative agencies.69 That started to change in the late nineteenth century, when

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60 Id.
64 37 C.F.R. §§ 42.51, 42.53, 42.65, 42.70 (2016).
65 Id. § 42.51.
66 TRIAL STATISTICS, supra note 7, at 11.
69 FRANK E. COOPER, ADMINISTRATIVE AGENCIES AND THE COURT 10–11 (1951) ("[V]ery few administrative agencies were created during the first century of this nation’s existence, except those which were clearly necessary to carry on the public business, such as the collection of customs..."
Congress created numerous agencies to regulate various aspects in the American economy. The New Deal accelerated the movement towards an administrative state, ushering in agencies such as the NLRB and SEC that played an increasingly prominent role in overseeing economic activity. Working in the shadow of the New Deal agencies, Congress enacted the APA to govern the administrative process and establish basic standards of judicial review.

The APA forms the default framework for administrative regulation, through which agencies can act by rulemaking or adjudication. Administrative rules are broadly categorized as substantive, procedural, or interpretive. Substantive rules have the “force and effect of law,” and can only be enacted after an opportunity for public input. This typically happens through “notice and comment,” whereby the agency publishes a notice of proposed rulemaking in the Federal Register, followed by a period for public comments. The agency enacts the final rule after receiving public feedback.

The APA exempts both “procedural rules” and “interpretive rules” from notice-and-comment. Although the line between procedural and substantive rules is not always clear, the Federal Circuit has explained the “critical feature of the procedural exception . . . is that it covers agency actions that do not themselves alter the rights or interests of parties, although [they] may alter the manner in which the parties present themselves or their viewpoints to the agency.” And interpretive rules “are those which merely clarify or explain existing law or regulations . . . and do not have the full force and taxes, the disposition of public lands, the distribution of veterans’ pensions, and the conduct of Indian affairs.”; see also STEVEN J. CANN, ADMINISTRATIVE LAW 11 (4th ed. 2006) (listing administrative agencies and their respective dates of creation).

70 George B. Shepherd, Fierce Compromise: The Administrative Procedure Act Emerges from New Deal Politics, 90 NW. UNIV. L. REV. 1557, 1561 (1996); CANN, supra note 69, at 11.
71 Shepherd, supra note 70, at 1561.
72 Id. at 1675.
75 See id. § 4:10.
76 Id.
77 See id. §§ 4:11–12.
78 Tafas v. Doll, 559 F.3d 1345, 1356 (Fed. Cir. 2009) (alteration in original) (emphasis omitted) (quoting JEM Broad. Co. v. FCC, 22 F.3d 320, 326 (D.C. Cir. 1994)), vacated en banc on other grounds, 328 F. App’x 658 (Fed. Cir. 2009).
and effect of a substantive rule but [are] in the form of an explanation of particular terms.”

Aside from rulemaking, an agency can also regulate through adjudication, which can be broadly classified as formal or informal. Formal adjudications require an on-the-record hearing, notice of “the matters of fact and law asserted” and an opportunity for parties to submit facts and arguments. Informal adjudications involve less rigorous procedures, but are still constrained by basic due process requirements. Even though agency decisions are limited to specific controversies, adjudications can still be effective tools for policymaking. Just as courts can announce rules or standards when they decide cases, agencies can similarly make policy through adjudication.

As administrative law evolved in the twentieth century, one of the key legal principles to emerge under the APA was *Chevron* deference. Concisely stated, *Chevron* deference requires courts to defer to an agency’s reasonable interpretation of the agency’s own statutes. So, for example, if the EPA promulgates a rule that interprets what “stationary source” means in the Clean Air Act, the court should not disturb the EPA’s interpretation so long as it is reasonable. Under the *Chevron* framework, courts first ask whether there are ambiguities in the statute that would allow an agency to exercise its rulemaking authority (*Chevron* step one). If the statute is ambiguous, the court asks whether the agency’s interpretation of the statute is reasonable (*Chevron* step two). Notably, “*Chevron* requires a federal court to accept the agency’s construction of the statute, even if the agency’s

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80 Koch & Murphy, supra note 74, § 2.10.
83 Koch & Murphy, supra note 74, § 2:11.
84 Daniel W. Morton-Bentley, Annotation, *Construction and Application of Administrative Procedure Act*, 5. U.S.C.A. §§ 500 et. seq.—Supreme Court Cases, 24 A.L.R. Fed. 3d Art. 5 (2017) (“Although it did not present a claim under the APA, the Supreme Court’s decision in *Chevron v. NRDC* informs judicial review of agency action, including claims under the APA, and is worth noting . . . the Court has applied *Chevron*’s principles to cases brought under the APA.”).
86 *Chevron*, 467 U.S. at 837.
87 *Brand X*, 545 U.S. at 980.
88 Id.
reading differs from what the court believes is the best statutory interpretation.”

Initially, it was unclear if the APA framework applied to the PTO at all. Unlike agencies such as the EPA, the PTO does not have authority to administer substantive patent law. The 1952 Patent Act gave the PTO authority to establish regulations that “govern the conduct of proceedings in the office,” “facilitate and expedite the processing of patent applications” and “govern the recognition [. . .] of [patent] agents [and] attorneys.” The statute did not confer substantive rulemaking authority on the PTO. Thus, the Director of the PTO cannot, for example, promulgate rules to establish what is “a new and useful” invention under the Patent Act. This is in stark contrast to agencies like the FTC, which has the authority to announce substantive legal standards like what constitutes “unfair or deceptive acts or practices in or affecting commerce.”

Despite initial reluctance from the Federal Circuit, the Supreme Court conclusively brought the PTO into the gambit of the APA in 1999. In Dickinson v. Zurko, the Supreme Court rejected the Federal Circuit’s application of a court/court review standard for PTO findings of fact. Instead, the Supreme Court held the proper standard of review is the court/agency standard under the APA. In reaching this conclusion, the Court rejected the notion that pre-APA patent cases grandfathered in common law judicial review standards. The Court expressed a strong policy against any

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89 Id.
91 Tafas v. Doll, 559 F.3d 1345, 1352 (Fed. Cir. 2009), vacated en banc on other grounds, 328 F. App’x 658 (Fed. Cir. 2009).
92 Id.
95 Id. at 154–55. The court/court review standard is for clear error, which asks whether a reviewing judge has a “definite and firm conviction” that an error has been committed. Id. at 162. By contrast, the APA court/agency standard is for substantial evidence, which “requires a court to ask whether a ‘reasonable mind might accept’ a particular evidentiary record as ‘adequate to support a conclusion.’” Id. (quoting Consol. Edison Co. v. NLRB, 305 U.S. 197, 229 (1938)). The court/agency standard is considered “somewhat less strict” than the court/court review standard. Id.
96 Id. at 155, 163.
97 Id. at 155, 162.
departure from the APA standards, noting that “[t]he APA was meant to bring uniformity to a field full of variation and diversity.” 98 After Zurko, the Federal Circuit clarified the Patent Office’s authority through its own case law. For example, in *In re Gartside*, the Federal Circuit held that PTO findings of fact would be reviewed for substantial evidence under the APA.99

In *Cooper Technologies Co. v. Dudas*, the Federal Circuit held that *Chevron* deference applies to the PTO’s legal interpretation of procedural rules.100 The Federal Circuit explained that the PTO has “plenary authority over PTO practice” and the Director’s authority to promulgate procedural rules is “the broadest of the Office’s rulemaking powers.”101 Notably, the court also rejected the notion that it could only defer to procedural rules announced through notice-and-comment rulemaking.102 Instead, the court explained that “whether the PTO’s procedural rule ‘is a ‘regulation’ for purposes of 35 U.S.C. § 2(a)(2) . . . would not affect our analysis.”103 That is because an “interpretive rule of a statute relating to matters of procedure . . . need not be published in the Code of Federal Regulations to be entitled to deference.”104

Neither *Zurko* nor *Cooper*, however, held that the PTO had any substantive rulemaking authority.105 The Federal Circuit confirmed as much in *Tafas v. Doll*, where the court found the PTO can only set procedural rules under the 1952 Patent Act.106 And although the AIA vastly increased the PTO’s adjudicatory powers, it stopped short of expressly granting substantive rulemaking authority over the legal criteria for patentability. Like the 1952 Patent Act, the AIA only authorized the PTO to promulgate regulations to establish standards and procedures for AIA reviews.107

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98 Id. at 155.
99203 F.3d 1305, 1314 (Fed. Cir. 2000).
100536 F.3d 1330, 1331–32 (Fed. Cir. 2008).
101Id. at 1335.
102Id. at 1337.
103Id.
104Id.
105Tafas v. Doll, 559 F.3d 1345, 1352 (Fed. Cir. 2009), vacated en banc on other grounds, 328 F. App’x 658 (Fed. Cir. 2009); Dickinson v. Zurko, 527 U.S. 150, 154 (1999) (holding that the Administrative Procedure Act’s (APA) standards governing judicial review of findings of fact made by federal administrative agencies apply when the Federal Circuit reviews findings of fact made by the Patent and Trademark Office (PTO)).
106 Tafas, 559 F.3d at 1352.
But even without an express delegation of substantive rulemaking authority, some scholars contend that AIA reviews should entitle the PTO deference on substantive patent law because they are relatively formal, trial-like proceedings. Notably, Melissa Wasserman argues that Congress created a post-grant review system to “decide ‘novel or unsettled legal question[s] that [are] important to other patents or patent applications,’” which strongly suggests the Board has the authority to speak with the force of law regarding core patentability standards. But thus far, the Federal Circuit has shown little inclination to interpret the AIA in a way that gives the PTO substantive rulemaking authority.

The lack of substantive rulemaking power does not mean the PTO cannot influence patent policy. As discussed above, both the 1952 Patent Act and the AIA grant the PTO director authority to set procedural rules. And procedural rules invariably affect substantive outcomes. Therefore, one recurring question is whether the PTO should set procedural rules based on the agency’s views on substantive norms. For example, if the PTO Director has specific policy goals for AIA reviews, to what extent can he implement those goals through procedural rules? Take for example, the standard for amending patent claims during AIA reviews. A “curative” model, like for patent reexaminations, would justify a liberal standard for amending claims. That way, overbroad patents are “fixed” by narrowing their scope instead of being cancelled altogether. By contrast, a “litigation avoidance” model, which seeks to emulate district court validity litigation, might suggest a more stringent standard for claim amendments, by which patentees are held to high burdens of proof to show why their amended claims are patentable over the prior art.

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109 Id. at 1997 (alterations in original).
110 Tafas, 559 F.3d at 1352.
111 See id.; see also 35 U.S.C. § 2.
112 Joseph S. Miller, Substance, Procedure, and the Divided Patent Power, 63 ADMIN. L. REV. 31, 44 (2011) (“It is widely acknowledged, for example, that ‘virtually all procedural rules may, and on occasion do, affect the result of the litigation.’” (citation omitted)); Robert G. Bone, Making Effective Rules: The Need for Procedure Theory, 61 OKLA. L. REV. 319, 329 (2008) (“Procedure affects substantive outcomes, of course, and critics often emphasize this fact when they make a case for substantive law manipulation disguised as procedural choice.”).
113 Bone, supra note 112, at 329.
Thus far, the Board has shown a willingness to use adjudication to further broader policy goals. Through its opinions in AIA reviews, the Board has tackled issues like the standard for discovery, estoppel, and burden of proof.\textsuperscript{115} Because each of these decisions is influenced by substantive policy goals on some level, the Board has been criticized for relying on adjudication instead of promulgating regulations through notice-and-comment.\textsuperscript{116} Moreover, assuming the Board should use adjudication to resolve some policy questions, there is still a separate question of whether the Board’s procedures are adequate to ensure its policies are implemented in a consistent and reliable manner. To better understand these issues, the next section looks at how the PTO uses adjudication to set policy in AIA reviews.

II. ADJUDICATION AS A POLICYMAKING TOOL

Having reviewed the PTO’s path to its current system of adjudication, this section takes a closer look at how the PTO uses adjudication to set policy and regulate AIA reviews. The section starts by addressing why the PTO would use adjudication over rulemaking in the first place. That is, if the PTO intends to better regulate AIA reviews, why would it not simply promulgate a more detailed set of rules? Although rulemaking is an important part of setting procedure, this section argues that case-by-case adjudication plays a necessary role in regulating AIA reviews as well, particularly with respect to issues that may not be suitable for rigid rules.

This section also examines the Board’s use of routine opinions, precedential decisions, and expanded panels to set policy and maintain uniformity among panels. The section argues that the PTO’s current procedures are not adequate for maintaining consistency and predictability. Notably, routine opinions and expanded panels do not bind future Board panels, which make them inadequate tools for setting policy.\textsuperscript{117} Although the PTO can also issue binding precedential decisions, this procedure has been


\textsuperscript{116}See Bone, supra note 112, at 325–26 & n.28.

\textsuperscript{117}See infra Part II.B.
underused thus far, and even the PTO itself admits that its procedure for establishing precedents needs reform.\textsuperscript{118}

\textbf{A. Rulemaking versus Adjudication}

Before diving into how the PTO uses adjudication to set policy, it is helpful to first look at \textit{why} the PTO would use adjudication over rulemaking in the first place. By way of background, the AIA established some basic procedural requirements for AIA reviews, but largely delegated the task of developing procedural rules to the PTO Director.\textsuperscript{119} The statute authorized the Director to promulgate regulations for discovery, oral hearings, and other aspects of AIA reviews.\textsuperscript{120} Pursuant to this authority, the PTO promulgated an initial rules package in 2012 to establish the basic contours of AIA reviews.\textsuperscript{121} A challenger files a petition that lays out its argument for invalidating an issued patent, and the patent owner submits a preliminary response.\textsuperscript{122} Based on those filings, the Board determines whether to institute review within six months of the petition.\textsuperscript{123} If review is instituted, the Board must reach a final written decision after both sides have an opportunity to present expert testimony and argue at an oral hearing.\textsuperscript{124}

Even at the outset, the PTO recognized the difficulty of foreseeing all the issues that would inevitably emerge during AIA reviews.\textsuperscript{125} With respect to the 2012 rules, the Director of the PTO noted that “[d]espite best efforts, we never envisioned that our rules or guidance would be perfect at the outset, but instead anticipated making refinements along the way.”\textsuperscript{126} Not long after the 2012 rules were implemented, the PTO went on a “listening tour” to gauge public sentiment about AIA reviews, which was followed by a Request

\textsuperscript{118} See Lee, Remarks at GWU, supra note 16.
\textsuperscript{120} Id. § 316(a).
\textsuperscript{122} 37 C.F.R. §§ 42.104, 42.107 (2017).
\textsuperscript{123} See id. § 42.104; 35 U.S.C. § 314.
\textsuperscript{124} See 37 C.F.R. § 42.70.
\textsuperscript{126} Id.
for Comments published in June 2014.127 Responding to public comments, the PTO published a set of proposed rules in August 2015, which were implemented in May 2016.128

Rulemaking of the type just described is one approach to govern AIA reviews. Arguably it is also the more sensible approach compared to the alternative means of regulating by adjudication. Legal scholars have debated agency choice between adjudication and rulemaking extensively, and the consensus is apparently that rulemaking is usually the superior policymaking tool.129 Whether that conclusion is sound is beyond the scope of this Article. Because even if agencies should use more rulemaking as a normative matter, adjudication will continue to play a key role in setting agency policy for a host of practical reasons.

To start, rulemaking cannot replace adjudication’s role in setting procedural standards entirely.130 Drawing an analogy to district courts, the Federal Rules of Civil Procedure has comprehensively governed federal civil

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129 RICHARD J. PIERCE, JR., ADMINISTRATIVE LAW TREATISE § 6.8 (5th ed. 2010) (“Over the years, commentators, judges, and Justices have shown near unanimity in extolling the virtues of the rulemaking process over the process of making ‘rules’ through case-by-case adjudication.”); M. Elizabeth Magill, Agency Choice of Policymaking Form, 71 U. CHI. L. REV. 1383, 1403–04 n.69 (2004) (“To say that there was a debate, however, implies more diversity of opinion than can be found . . . . [T]he drift of these articles was fairly uniform: agencies should use rulemaking more often than they did.”).

130 For example, in describing the development of the Federal Rules of Civil Procedure, Professor Bone observed that the Advisory Committee deliberately drafted vague standards so that trial judges can resolve procedural issues through a case-by-case approach:

Rather than resolving difficult and often divisive normative questions at the rulemaking stage, the Advisory Committee tends to draft general rules with vague standards that in effect leave the hard questions for trial judges to resolve in individual cases. One reason for this strategy has to do with the continuing influence of a pragmatic style of reasoning that relies on an ad hoc and largely intuitive balancing of “process values” (such as efficiency, fairness, participation, legitimacy, and the like). This type of reasoning tends to push toward case-specific, contextualized decisionmaking, just as it did for the Federal Rule drafters, but without the belief in expertise and value neutrality that justified the approach originally.

Bone, supra note 112, at 326–27.
litigation since the 1930s. Yet few would contend the Federal Rules eliminated the role of courts in setting policy for civil litigation. In fact, many procedural rules were left deliberately vague so their interpretation and application could evolve in a pragmatic, case-specific manner. To that end, courts were left to interpret the procedural rules and apply them to new or unique factual situations. Judicial determinations of procedural rules are also useful for resolving underlying policy issues. For example, Bell Atlantic Corp. v. Twombly, a landmark civil procedure case, is firmly rooted in the Court’s attempt to strike a balance between keeping courts accessible and the social costs of discovery in potentially meritless lawsuits.

As a policymaking tool, adjudications are narrower in scope and can be targeted at specific problems as they emerge. By adopting policy piecemeal through individual cases, an administrative agency such as the PTO can resolve procedural questions that may not be foreseeable during rulemaking. As the Supreme Court noted in SEC v. Chenery Corp., “problems may arise in a case which the administrative agency could not reasonably foresee, problems which must be solved despite the absence of a relevant general rule.” Likewise, “the agency may not have had sufficient experience with a particular problem to warrant rigidifying its tentative judgment into a hard and fast rule. Or the problem may be so specialized and varying in nature as to be impossible of capture within the boundaries of a general rule.” As discussed in Section III.A., some procedural issues that emerge during AIA reviews are likely better resolved through adjudication.

B. Routine and Precedential Opinions

Given the ad hoc nature of regulating through adjudication, the PTO has employed various procedural tools to decide cases in a consistent manner. In

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132 Bone, supra note 112, at 326–27.
133 Id.
134 Bell Atl. Corp. v. Twombly, 550 U.S. 544, 557–58 (2007) (describing the need for a pleading requirement that prevents “a plaintiff with a largely groundless claim . . . to take up the time of a number of other people, with the right to do so representing an in terrorem increment of the settlement value” (internal quotations and citations omitted)).
137 Id.
a typical AIA review, a panel of the Board issues two major written decisions: an initial decision on whether to institute review, and a final written decision at the end of the AIA review.138 Along the way, the Board may also decide motions or other procedural issues.139 In light of the thousands of petitions filed already, there is already a significant body of decisions from the Board.140 To ensure uniformity among panel decisions and to provide more guidance to practitioners, the Board established a scheme by which some opinions become binding precedent, some are deemed “informative,” and most remain as “routine” opinions.141

Routine Opinions. By default, all Board opinions in AIA reviews are designated as routine.142 In theory, routine opinions have no precedential value. The PTO warns that “[routine] opinions may have little persuasive value in relation to other Board opinions in other cases.”143 The lack of precedential value, however, has not prevented some routine opinions from having a significant impact on PTO policy.

For example, the Board has largely defined real parties in interest through case-by-case adjudication in routine opinions.144 Who counts as a real party in interest is important because it defines the scope of the AIA’s estoppel bar.145 After an AIA review is complete, both petitioners and their real parties in interest are barred from re-challenging claims on any ground that they

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138 See, e.g., 37 C.F.R. §§ 42.73, 42.108 (2017).
139 Id. at § 42.71.
140 TRIAL STATISTICS, supra note 7.
142 Id. at 4.
could have reasonably raised in the petition.\textsuperscript{146} Over the past few years, Board opinions have gradually developed standards to evaluate whether an unnamed party exerts sufficient “control” over an AIA review to constitute a real party in interest.\textsuperscript{147} For example, to determine whether a related corporate entity such as a parent or sister company is a real party in interest, individual panels have focused on factors such as the existence of a financially controlling interest, whether the related company pays for and supervises the IPRs, and whether the companies coordinated legal strategies.\textsuperscript{148}

How the PTO has interpreted real parties in interest has particularly impacted organizations that file IPRs for the benefit of their members. In \textit{Unified Patents v. American Vehicular Sciences}, the petitioner was an organization called Unified Patents that makes no commercial products.\textsuperscript{149} Instead, Unified Patents is funded by membership fees and files IPRs against patents that threaten its members.\textsuperscript{150} Various patent owners have argued the real parties in interest for Unified Patents’ petitions are its members because they benefit from the IPRs and indirectly fund the proceedings through membership fees.\textsuperscript{151} The Board rejected this argument, and held that even though its members pay a subscription fee to Unified Patents, they do not exert sufficient control over the AIA reviews.\textsuperscript{152} If the Board adheres to this rationale, companies should be free to join these membership organizations without worrying about being named as real parties in interest in AIA review petitions.

The Board's decisions on real parties in interest have encouraged the growth of organizations like Unified Patents and RPX, which are now among

\textsuperscript{146} Id. § 315(e).
\textsuperscript{147} See, e.g., \textit{Zoll LifeCor Corp.}, No. IPR2013-00616, Paper 17 at 9–13.
\textsuperscript{148} See id. at 10.
\textsuperscript{149} \textit{Am. Vehicular Scis., LLC.}, No. IPR2016-00364, Paper 7 at 22.
\textsuperscript{150} \textit{Am. Vehicular Scis., LLC.}, No. IPR2016-00364, Paper 13 at 5–6.
\textsuperscript{152} \textit{Dragon Intellectual Prop., LLC}, No. IPR2014-01252, Paper 37 at 8–14. By contrast, in \textit{RPX Corp. v. VirnetX, Inc.}, the Board noted that “a member of a trade association who finances an action which it brings on behalf of its members impliedly authorizes the trade association to represent him in that action.” No. IPR2014-00171, Paper 49 at 4–10 (P.T.A.B. June 5, 2014). In that case, the Board found that Apple was in fact a real party in interest to a petition filed by RPX. \textit{Id.}
the most frequent petitioners at the PTO.\textsuperscript{153} Those who favor such organizations argue they help even the playing field between small companies and patent trolls by allowing companies to pool resources to attack invalid patents.\textsuperscript{154} Others, however, argue they subvert the estoppel provisions of the AIA.\textsuperscript{155} Either way, the business practices and organization of such groups depend in large part on the Board’s legal interpretations announced in non-binding routine opinions. Should a Board panel change its rationale, as it is free to do under its operating procedures, it would inevitably disrupt the plans and expectations of companies that joined these trade associations.

Precedential Opinions. A member of the Board or public can nominate any opinion as precedential.\textsuperscript{156} After an opinion is nominated, the entire Board must vote on whether to make an opinion precedential.\textsuperscript{157} Even if the Board votes to do so, the final decision rests with the PTO Director.\textsuperscript{158} Notably, unlike routine or informative opinions, a precedential opinion is binding on subsequent panels, and can only be overturned by subsequent binding authority.\textsuperscript{159} By the start of 2018, the Board has only designated eleven AIA review decisions as precedential. The first precedential opinion was designated in July 2014.\textsuperscript{160} Nearly two years passed before the Board

\textsuperscript{153}IPR: Not Just for Litigants, RPX (Feb. 21, 2017), https://www.rpxcorp.com/2017/02/21/ipr-not-just-for-litigants/ (describing how non-litigants are now some of the most frequent filers of IPR petitioners).


\textsuperscript{156}P.T.A.B. STANDARD OPERATING PROCEDURE 2, supra note 141, at 2.

\textsuperscript{157}Id. at 2–3. Aside from routine opinions and precedential opinions, the PTO also designates some opinions as informative. Like routine opinions, informative opinions are also not binding. The Chief Judge can designate any nominated opinion as informative based on considerations such as whether it provides the Board “norms on recurring issues,” “guidance on issues of first impression,” or “guidance on Board rules and practices.” Id. at 3–4.

\textsuperscript{158}Id.

\textsuperscript{159}Id. at 3.

\textsuperscript{160}Meghan J. Kent & Steven J. Schwarz, PTAB Designates First Precedential AIA Trial Decision, VENABLE LLC (Sept. 2014), https://www.venable.com/tab-designates-first-precedential-
designated two more precedential cases in January 2016. The pace of designating precedential opinions has accelerated more recently, with the Board designating eight opinions since 2016. These cases govern issues such as the standard for seeking discovery and when the one-year time bar for filing an IPR petition is triggered.

Of these precedential decisions, the Board’s decision in MasterImage 3D v. RealD was particularly controversial among patent owners who believe the Board’s procedures fundamentally undermine their right to amend their patents in IPRs. In that case, the Board confirmed earlier opinions holding that patent owners, instead of the petitioner, must prove that each proposed claim is patentable over the prior art of record. This is the opposite of typical patent examination, where the examiner must identify the references that render each claim unpatentable and explain the “pertinence of each reference, if not apparent.” The impact of the Board’s rule was significant, as most patent owners have failed to prove their proposed claims are patentable.

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164 Baluch & Dickinson, supra note 14, at 2–3.


166 37 C.F.R. § 1.104 (“In rejecting claims for want of novelty or for obviousness, the examiner must cite the best references . . . [and t]he pertinence of each reference, if not apparent, must be clearly explained and each rejected claim specified.”).
patentable over the prior art. Out of 118 motions to amend filed by April 2016, all but six were denied entirely. This led some to question whether the right to amend challenged claims in AIA reviews is largely illusory. The Federal Circuit ultimately intervened in *Aqua Products v. Matal*, and overturned the Board’s practice of placing the burden of proof on patent owners.

C. Expanded Panels

Apart from how the Board categorizes its own opinions, the Director can also use expanded panels on an ad hoc basis to set agency procedure and maintain consistency between panels. Board panels usually consist of three members, which is the minimum number established by statute. Nothing in the statute, however, limits the maximum number of judges on each panel, and the Board’s internal operating procedure allows the Director to expand panels to rehear cases. Accordingly, the Chief Judge, acting on behalf of the Director, can expand a panel if the “AIA Review involves an issue of exceptional importance,” “[c]onsideration by an expanded panel is necessary to secure and maintain uniformity of the Board’s decisions,” or upon “written request from the Commissioner for Patents.” The expanded panel will include the members of the original panel, and “additional judges to be assigned by the Chief Judge.”

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170 872 F.3d 1290, 1296 (Fed. Cir. 2017).


172 35 U.S.C. § 6 (2012) (“Each appeal, derivation proceeding, post-grant review, and inter partes review shall be heard by at least 3 members of the Patent Trial and Appeal Board, who shall be designated by the Director.”).


174 Id. at 3.

175 Id. at 4.
At first blush, given the Board’s rationale for expanded panels, this procedure seems analogous to en banc review by federal appellate courts.\textsuperscript{176} The Board’s standard operating procedure parrots the language of Federal Rules of Appellate Procedure 35, which states that en banc hearings are appropriate where it is “necessary to secure or maintain uniformity of the court’s decisions” or the case “involves a question of exceptional importance.”\textsuperscript{177} But that is where the parallels end. Even though the Board’s internal operating procedure suggests that expanded panels are used to resolve important issues and maintain uniformity, the decisions of expanded panels are ultimately not binding.\textsuperscript{178} As such, this practice contrasts sharply with en banc opinions in federal appellate courts, which bind future circuit court panels and can only be overturned by another en banc decision.\textsuperscript{179}

In fact, some Board panels have expressly declined to follow the legal interpretations and rationales decided in expanded panels.\textsuperscript{180} The Board’s approach to joinder practice illustrates how the Director has struggled to use this procedure to maintain uniformity among panel decisions. Under the AIA’s joinder provision, the Director may “join as a party to that inter partes review any person who properly files a petition.”\textsuperscript{181} Although joinder may not seem contentious, it has garnered controversy in practice because some argue that it can be used to circumvent statutorily defined deadlines for filing IPRs.

The AIA sets a one-year deadline to file an IPR or CBM petition after being sued for patent infringement.\textsuperscript{182} Now suppose a party is sued for infringement, files an IPR petition, and the Board institutes review on some grounds, but not others. By this time, the one-year deadline for filing a

\textsuperscript{176} FED. R. APP. P. 35.

\textsuperscript{177} Id.


\textsuperscript{179} Retractable Techs., Inc. v. Becton, Dickinson & Co., 659 F.3d 1369, 1372 (Fed. Cir. 2011) (noting that, where prior panel decision is inconsistent with an en banc opinion, the court is bound by the en banc decision); see also Textile Mills Sec. Corp. v. C.I.R., 314 U.S. 326, 334–35 (1941) (explaining that en banc decisions avoid intra-circuit conflicts and promote finality of decision in the circuit courts).


\textsuperscript{182} See id. § 315(b).
petition may well have elapsed. To avoid the one-year deadline, some parties will file a second petition and request to join their own previously instituted AIA review. Because the AIA exempts joinder from the one-year deadline, a petitioner can thus introduce new arguments after the one-year deadline. Unsurprisingly, various Board members found this practice objectionable. Those members favor a rule that limits joinders to petitions filed by different parties.

The apparent policy of the Director, however, is that arguments from different petitions can be joined, even if they are filed by the same petitioner. To implement this policy, the Chief Judge, acting on behalf of the Director, has expanded the number of judges on panels to overrule members who disagree. In Target Corp. v. Destination Maternity Corp., a five-member panel, in a 3-2 decision, initially determined that a petitioner cannot join its own previously filed petition. After the petitioner requested rehearing, the Chief Judge added two judges onto the panel. Now with seven judges, the expanded panel reversed the prior order in a 4-3 decision. The expanded panel held that “the only person excluded by the language [of the statute] is the owner of the patent at issue.” Therefore, the Board can properly join a party to its own previously filed petition.

Even though the expanded panel decision was not binding, one would reasonably expect the Board to consistently interpret § 315(d) in accordance with Target. But instead, panels faced with the same question continued to diverge. For example, in Skyhawk Tech. v. L&H Concepts, LLC, a three-
judge panel interpreted the joinder provision in precisely the opposite manner as the expanded panel in Target.\textsuperscript{194} In that case, the panel held that “join as a party” excludes a person who is already a party.\textsuperscript{195} Another panel reached the same conclusion in ZhongShan v. Nidec, and the Chief Judge intervened again by using an expanded panel to overrule the original panel’s decision.\textsuperscript{196} On appeal, Nidec alleged that the Board’s reliance on expanded panels was improper because the two administrative judges were added with the “expectation that they would vote to set aside the earlier panel decision.”\textsuperscript{197} Although the Federal Circuit ultimately affirmed the Board’s decision, the court criticized the PTO’s practice of expanding panels to maintain uniformity.\textsuperscript{198} In a concurring opinion, Judge Dyk wrote that “[w]hile we recognize the importance of achieving uniformity in PTO decisions, we question whether the practice of expanding panels where the PTO is dissatisfied with a panel’s earlier decision is the appropriate mechanism of achieving the desired uniformity.”\textsuperscript{199}

As exemplified by the Board’s decisions on joinder, panels will sometimes issue opinions that seem squarely at odds with one another. Some practitioners complain that cases are producing “completely opposite decisions” from the Board, and that conflicting opinions means that panels can “pick and choose in their reasoning.”\textsuperscript{200} To some extent, apparent inconsistencies between panel opinions can be attributed to the fact-intensive nature of deciding questions like real parties in interest. But as Target shows, even a clear legal interpretation from an expanded panel does not bind the Board, and there is little to prevent individual panels from departing from the rationale of prior decisions.\textsuperscript{201} This is particularly problematic in areas where the statutory language is sufficiently broad and the prior decisions diverse.

\textsuperscript{195} Id. at 4.
\textsuperscript{198} Id.
\textsuperscript{199} Id.
\textsuperscript{200} Id.
\textsuperscript{201} Id.
enough such that individual panels have wide discretion on how to apply the law.

Criticism of procedural uncertainty and inconsistent standards are not exclusive to the PTO. A more unique problem, however, is that the Board’s tools for ensuring consistency are inadequate and underused. For instance, although expanded panels are designed so the Director can resolve issues of exceptional importance or secure uniformity of the Board’s decisions, their lack of precedential value means the Director can do little to accomplish those goals. And although precedential opinions are binding, they have been underused thus far. The Board has only designated eleven AIA review decisions as precedential. The designation process is also procedurally cumbersome, as it requires a majority of Board members to vote in favor of making an opinion precedential. As former PTO Director Michelle Lee candidly explained, “the approval process for making a decision precedential that worked for a Board of 80 judges does not necessarily work so well with a Board of almost 300.” In short, the current PTO procedures hamper the Director’s ability to set agency policy through adjudication.

Because of a perceived lack of clarity regarding AIA review standards and procedures, the patent bar has broadly pushed the Board to designate more precedential opinions. Some have urged practitioners to take a more active role in nominating opinions as precedential. And others have even proposed a rule that would allow petitioners to ask the Board for en banc review in order to facilitate the development of binding precedent. For its part, the Board agrees that precedential opinions would help maintain consistency before panels, and former Director Michelle Lee announced the PTO plans to designate more opinions as precedential. But as the next section reveals, deficiencies in the Board’s internal procedures are compounded by the Federal Circuit’s general reluctance to defer to the PTO’s legal interpretations.

202 See supra Section II.B.
203 Lee, Remarks at GWU, supra note 16.
204 Id.
205 Loney, supra note 200; Koenig, supra note 11.
208 Lee, Remarks at GWU, supra note 16.
III. JUDICIAL REVIEW OF PTO ADJUDICATION

Thus far, this Article has focused on the internal procedures for AIA reviews at the PTO. This section takes a step back to look at how AIA reviews fit in the broader confines of the Administrative Procedure Act (APA) and how the Federal Circuit reviews the PTO’s decision-making, particularly in view of the court’s long-standing reluctance towards deferring to the PTO.

Given the “plenary authority” of the PTO over procedural issues, the Board should, in theory, be able to regulate AIA reviews through formal adjudication and receive deference for its legal interpretations.209 This would be consistent with the principle that reviewing courts should not dictate the agency’s choice of policymaking forum, but instead defer to reasonable agency interpretations of ambiguous statutes regardless of whether the agency used adjudication or rulemaking.210 And yet, the Federal Circuit has been hesitant to acknowledge the PTO’s authority to set policy through adjudication. This reluctance is unfortunate, as clearer rules on the Patent Office’s rulemaking authority would likely enhance uniformity and consistency in AIA reviews.

This section tries to answer three questions. First, are AIA reviews administrative actions that establish binding legal standards? The Supreme Court held that agency legal interpretations are only entitled to Chevron deference if Congress intended the agency to make rules “carrying the force of law.”211 The Board’s routine opinions likely do not meet this standard because they are not binding and do not reflect the legal views of the PTO Director. By contrast, the Board’s precedential opinions should, at least in theory, be entitled to Chevron deference.

Second, how has the Federal Circuit reviewed PTO policies announced through adjudication? Not surprisingly, the court has taken a narrow view of the PTO’s regulatory authority, and at times suggested that only rules promulgated through notice-and-comment are entitled to deference.212 The court’s struggle to define the scope of the PTO’s authority was plainly evident in Aqua Products, in which a deeply divided court ultimately refused to defer to the PTO’s precedential decision regarding the burden of proof for

212 See infra Part III.C.
proposed claim amendments in IPRs. Although *Aqua Products* did not foreclose the use of adjudication altogether, the decision likely limited the set of issues for which the Board could regulate through adjudication. Accordingly, the PTO is likely to face significant challenges in its efforts to maintain uniformity in AIA reviews.

Third, is the Federal Circuit’s reluctance to defer to the PTO’s decision-making justified? As others have noted, many of the policy rationales behind *Chevron* deference are not relevant for the PTO because it lacks rulemaking authority over substantive patent law issues. Nevertheless, Congress delegated regulatory authority to the PTO for AIA reviews, and thus *Chevron* and its progeny require courts to defer to reasonable exercises of the PTO’s rulemaking authority. Therefore, the pertinent question is not whether the Federal Circuit should defer to the Board’s legal interpretations as a general matter, but whether the court should dictate the manner by which the agency exercises its delegated authority. Specifically, are there good reasons to foreclose the PTO from announcing policy through adjudication? This Article finds no compelling reasons for doing so.

### A. Do AIA Review Decisions Have the Force and Effect of Law?

To determine whether the Board is entitled to deference for its decisions, it is helpful to first examine whether AIA reviews can be fairly characterized as administrative actions that establish binding legal standards. In *U.S. v. Mead*, the Supreme Court held that agency actions are only entitled to *Chevron* deference if Congress intended the agency to make rules “carrying the force of law.” This is often called “*Chevron* step zero.”

Intuitively, it seems reasonable to conclude that Congress intended the PTO to speak with the force of law by creating a relatively formal administrative proceeding to decide the validity of issued patents. Notably, the Supreme Court explained that “[i]t 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

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216 533 U.S. at 218.
fairness and deliberation that should underlie a pronouncement of such force." Likewise, the Federal Circuit has suggested that AIA reviews are formal proceedings subject to Section 554 of the APA. In *Dell Inc. v. Acceleron, LLC*., for example, the court held that patent owners are entitled to the procedural protections for formal adjudications in AIA reviews. Such procedural requirements include notice of the fact and law asserted, an opportunity to submit arguments and evidence, and a hearing. The Federal Circuit reiterated that parties to an IPR are entitled to procedural protections under the APA in *SAS Institute, Inc. v. ComplementSoft LLC*. Again citing Section 554, the court faulted the Board for adopting a new claim construction at the final written decision without providing any notice to the petitioner, and noted that "an agency may not change theories in midstream without giving respondents reasonable notice of the change" and "the opportunity to present argument under the new theory." With the Federal Circuit’s pronouncements in *Dell* and *SAS*, AIA reviews seem easily categorized as "a relatively formal administrative procedure tending to foster the fairness and deliberation." Indeed, as Justice Scalia noted in *Mead*, "informal rulemaking and formal adjudication are the only more-or-less safe harbors" for *Chevron* deference.

On the other hand, there are reasons to conclude that at least routine opinions should not receive any *Chevron* deference, even with respect to procedural matters. The most persuasive argument against *Chevron* deference is that the Board’s routine opinions do not bind future panels. Hence, even the Board itself does not treat its routine opinions as binding law with prospective effect. And moreover, the Director is not involved with

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217 *Id.* at 230.
218 *Dell Inc. v. Acceleron, LLC*, 818 F.3d 1293, 1301 (Fed. Cir. 2016).
219 *Id.*
220 *Id.*
221 *Id.*
222 *Id.*
224 *Id.*
226 *Id.* at 246 (Scalia, J., dissenting).
227 *Golden, Working Without Chevron*, supra note 8, at 1686 ("Nonprecedential PTAB opinions seem particularly unlikely to trigger *Chevron* deference from Article III courts, whose judges might wonder why they should consider themselves largely bound by a PTAB ruling that neither the PTAB nor the agency more generally considers to be binding.").
228 See *id.*
individual panel decisions, so it would be difficult to categorize routine opinions as agency-level legal interpretations. As discussed in Section II.B., individual panels have expressly declined to follow legal interpretations announced in prior AIA reviews. Such inconsistencies between panels undermine any reasonable argument that routine opinions represent the legal interpretations of the PTO as an agency.

Precedential Board opinions are stronger candidates for *Chevron* deference. Unlike routine opinions, precedential opinions are binding on future Board panels. Moreover, the PTO Director ultimately decides whether an opinion should be designated as precedential. Stuart Benjamin and Arti Rai observed, for example, that the Board’s procedure for designating precedential opinions is consistent with the “standard federal model” for agency decision-making, in which agency heads act as the “final arbiter of legal and policy questions.” In other words, precedential opinions represent an agency-level legal interpretation, not just the legal reasoning of an individual panel.

B. What is the Federal Circuit’s Approach to PTO Adjudication?

This section looks at the Federal Circuit’s approach to the PTO’s adjudicatory authority, focusing on the court’s opinions regarding the scope of CBMR and the burden of proof on motions to amend in IPRs. Thus far, the Federal Circuit has been reluctant to defer to the PTO, particularly where the Board announces agency policy through adjudication. Notably, the court’s decisions regarding the scope of CBMR reflect an unwillingness to apply the *Chevron* framework to the Board’s legal interpretations at all. And even when the court ostensibly applied *Chevron* in *Aqua Products*, the Federal Circuit still subjected the PTO’s policymaking process to close scrutiny.

To start, consider the Federal Circuit’s decisions on which patents qualify for CBMR. By way of background, Section 18 of the AIA created CBMR,

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227 Id. at 1680–85.
228 Id. at 1689–90.
229 Id. at 1690.
232 See *Aqua Prods.*, Inc. v. Matal, 872 F.3d 1290, 1316 (Fed. Cir. 2017) (en banc).
which is a transitional program for covered business method patents only. CBMRs have become a powerful tool for invalidating patents on business methods. The AIA requires the PTO Director to “issue regulations establishing and implementing a transitional post-grant review proceeding for review of the validity of covered business method patents,” which is in turn defined as patents “that claim 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 technological inventions.” With respect to what constitutes “technological invention,” the AIA states that the “Director shall issue regulations for determining whether a patent is for a technological invention.”

Pursuant to its statutory mandate, the PTO initially set out to define what constitutes a “financial product or service” through notice-and-comment rulemaking. During this process, the PTO refused to limit the definition to products or services of the financial services industry. And the PTO similarly refused to define “financial product or service” based on the classification system for patents. Ultimately, the PTO adopted a rule that copies the statute word-for-word. Instead of trying to establish rigid rules on which patents qualify for CBMR, the PTO decided the question would be best resolved through case-by-case adjudication.

SAP America, Inc. v. Versata Development Group was the first CBMR filed and gave the PTO an opportunity to apply its case-by-case approach to defining CBMs. In that case, the Board held the definition of a CBM should “be broadly interpreted and encompass patents claiming activities that

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234 See id. (Notably, a CBMR petitioner may argue that challenged claims do not recite patent-eligible subject matter under § 101, whereas IPR petitioners may not.); see also 35 U.S.C. § 311(b) (2012).
235 Leahy-Smith America Invents Act § 18(a)(1).
236 Id. § 18(d)(1).
238 Id.
239 Id.
240 Compare 37 C.F.R. § 42.301 (2017), with Leahy-Smith America Invents Act § 18(d)(1).
241 Transitional Program for Covered Business Method Patents, 77 Fed. Reg. at 48,737 (explaining that the PTO will “consider whether a patent is for a technological invention on a case-by-case basis and will take into consideration the facts of a particular case”).
are financial in nature, incidental to a financial activity or complementary to a financial activity.” 243 According to the Board, the term “financial is an adjective that simply means relating to monetary matters.” 244 Versata appealed, and argued that CBMs should only cover “products or services from the financial sector.” 245 The Federal Circuit agreed with the PTO’s interpretation and held that “[t]he plain text of the statutory definition . . . covers a wide range of finance-related activities. The statutory definition makes no reference to financial institutions . . . .” 246

The Federal Circuit’s holding in Versata, at least with respect to the scope of CBMR, is nothing radical. But how the court reached its decision deserves attention. In its opinion, the court acknowledged that Congress specifically authorized the PTO to define the meaning of technological invention, and “gave the USPTO broad authority over the entire [CBM] program.” 247 The court then looked to the PTO’s rulemaking and found that it “add[ed] nothing to our understanding” of the scope of CBM—not surprising since the PTO’s rule parroted the statute verbatim. 248 But at this point, instead of looking at whether the Board’s interpretation in the decision itself was entitled to deference under Chevron, the court analyzed the statute de novo. 249 Indeed, the court even noted that “[i]t might have been helpful if the agency had used that authority to elaborate on its understanding of the definition provided in the statute.” 250 Of course, the flaw with this approach is that the Board did elaborate on its understanding of the statute, both in its notice of final rulemaking and in the Versata decision itself. 251 By suggesting otherwise, the

243 Id. at 21–22.
244 Id. at 23.
245 Versata Dev. Grp., Inc. v. SAP Am., Inc., 793 F.3d 1306, 1324 (Fed. Cir. 2015).
246 Id. at 1325.
247 Id. at 1323.
248 Id. at 1324; 37 C.F.R. § 42.301 (2017).
249 Versata, 793 F.3d at 1326–27.
250 Id. at 1325.
251 Transitional Program for Covered Business Method Patents, 77 Fed. Reg. at 48,736 (explaining that “[t]he suggestion to clarify that the term ‘financial product or service’ is limited to the products or services of the financial services industry is not adopted” because “[s]uch a narrow construction of the term would limit the scope of the definition of covered business method patents beyond the intent of section 18(d)(1) of the AIA”); SAP Am., Inc. v. Versata Dev. Grp., Inc., No. CBM2012-00001, Paper 36 at 22–23 (P.T.A.B. Jan. 9, 2013) (declining to “interpret the statute as requiring the literal recitation of the terms financial products or services . . . [because t]he term financial is an adjective that simply means relating to monetary matters.”).
Federal Circuit implicitly rejected any notion that the Board can interpret law in any manner other than notice-and-comment rulemaking.

The Federal Circuit’s decision in Secure Axcess v. PNC Bank confirmed that the court would not defer to the Board’s interpretations of the CBMR statute. There, the court reversed the Board’s determination that a patent for a method of authenticating webpages was directed to a “covered business method.” The Board initially held that CBMs include any patent that “covers the ancillary activity related to a financial product or service.” On appeal, both parties urged the Federal Circuit to review the Board’s decision under the arbitrary and capricious standard as an exercise of the Board’s policy discretion. The court disagreed, and instead framed the question as whether the Board “properly understood the scope of the statutory definition. That is a question of law.”

Assuming the court correctly characterized the issue as a legal interpretation of the CBMR statute, the next step should have been to consider whether the Board’s interpretation was entitled to deference. As the Supreme Court explained, “If a statute is ambiguous, and if the implementing agency’s construction is reasonable, Chevron requires a federal court to accept the agency’s construction of the statute, even if the agency’s reading differs from what the court believes is the best statutory interpretation.” Here, the Board reached its interpretation in a detailed opinion that considered the legislative history of AIA, how the patent would be practiced, and the patent owner’s infringement assertions against the financial industry. The Federal Circuit, however, did not consider whether this analysis was reasonable. Instead, the court looked at the statute de novo, and concluded that CBMRs are only available for patents that claim a financial activity, and not merely patents that perform operations “incidental to a financial activity.”

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253 Id. at 1375.
254 Id. at 1377.
255 Id.
257 Id.
259 Secure Axcess, 848 F.3d at 1380–81.
260 Id. at 1381 (emphasis added).
One way to understand Versata and Secure Axcess is to conclude that the scope of CBMR is a substantive legal issue that Congress did not intend the PTO to regulate. For instance, the Board is not entitled deference on its interpretation of what constitutes patentable subject matter under § 101. Therefore, one could argue the Board also lacks authority to interpret which patents are directed to “business methods.” The problem with this argument is two-fold. First, the scope of CBMR is not a substantive requirement for patentability. Instead, it is a mechanism to sort out which patents are eligible for a specific type of AIA review. In that sense, the scope of CBM is not directly comparable to substantive patentability issues like obviousness or patent eligibility. Second, Congress seemingly intended the PTO to interpret the scope of CBMR by conferring broad authority over the CBMR program generally. The statute requires the Director to issue “regulations establishing and implementing a transitional post-grant review proceeding for review of the validity of covered business method patents.” Indeed, the Federal Circuit found that Congress conferred “broad authority over the entire [Section] 18 program” on the PTO, and even suggested the PTO should have “used that authority to elaborate on its understanding of the definition provided in the statute.”

Perhaps another way to harmonize the Federal Circuit’s approach with Chevron is by reasoning that the Board failed to speak with the force of law as required by Mead, and therefore its attempt to define the scope of CBMR fails Chevron “step zero.” The Federal Circuit criticized the PTO for failing to “adopt [its] general policy statement” on the scope of CBMR “through rule making procedures.” This implies the Board cannot announce policy through adjudication, or at least in routine opinions. But under this view, the PTO could simply promulgate a rule through notice-and-comment rulemaking to define CBM as any patent that is incidental to financial activity. And even though such a rule would contradict the holding in Secure Axcess, the Federal Circuit would still have to defer to the PTO’s interpretation so long as it is reasonable.

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263 Id.
265 Unwired Planet, LLC v. Google Inc., 841 F.3d 1376, 1380 (Fed. Cir. 2016), petition for cert. filed, No. 17-357 (Sept. 1, 2017); Versata, 793 F.3d at 1325.
consider the Board’s previous interpretations under the *Chevron* framework at all, such deference seems unlikely even if the PTO uses notice-and-comment rulemaking.267

Finally, one can conclude Congress simply did not leave any statutory ambiguity on the scope of CBM. The fact that Congress specifically authorized the Board to interpret “technological invention,” but not “covered business method,” lends some support to this view because it implies that Congress did not intend to leave any ambiguity regarding the latter term.268 But even so, figuring out whether the statute is ambiguous is part of *Chevron* step one, whereas *Versata* and *Secure Axcess* suggest the two-step *Chevron* analysis is entirely inapplicable.

The Federal Circuit’s en banc decision in *Aqua Products* confronted these questions more directly, but ultimately provided little clarity.269 In that case, the court addressed whether the PTO acted within its authority by placing the burden of proof on the patentee to show that its proposed amended claims in IPRs are patentable.270 As background, the AIA allows patent owners at least one opportunity to amend their claims in an IPR.271 And the statute also requires the petitioner to prove each “proposition of unpatentability by a preponderance of the evidence.”272 The statute does not, however, specify whether the “proposition of unpatentability” covers proposed amended claims, or if it only applies to issued claims that were initially challenged.273 For its part, the PTO never promulgated a rule that directly addressed the burden for proving the patentability of proposed amended claims. Instead, the agency established a general rule stating that “the moving party has the burden of proof to establish that it is entitled to the requested relief.”274 In the notice of proposed rulemaking and the final rule, the PTO explained that its general rule on burdens of proof would apply to motions to amend.275

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268 Compare Leahy-Smith America Invents Act § 18(d)(1), with id. § 18(d)(2).
269 872 F.3d 1290, 1296 (Fed. Cir. 2017) (en banc).
270 Id.
272 Id. § 316(c).
273 See id.
274 37 C.F.R. § 42.20(c) (2017).
Like in the CBMR cases, the Board developed the standard for amending claims largely through adjudication.\textsuperscript{276} In \textit{Idle Free Systems, Inc. v. Bergstrom, Inc.}, the Board held that patent owners carried the burden of proving that each proposed amended claim is patentable over the prior art.\textsuperscript{277} Specifically, the Board explained that patent owners are required “in all circumstances, to make a showing of patentable distinction over the prior art.”\textsuperscript{278} The Director designated \textit{Idle Free} as informative, but not precedential.\textsuperscript{279} Two years later, the Board clarified the standard for amending claims in \textit{MasterImage 3D v. RealD}, which was designated precedential.\textsuperscript{280} \textit{MasterImage 3D} confirmed that patent owners must prove the patentability of amended claims.\textsuperscript{281}

Initially, the Federal Circuit approved of the Board’s approach in \textit{Microsoft v. Proxyconn}, where the court recognized that agency’s lack of experience with AIA reviews favored developing the law through case-by-case adjudication.\textsuperscript{282} In that case, a panel of the court credited the PTO’s argument that “adjudication is appropriate here because the PTO ‘has not had sufficient experience with [motions to amend] to warrant rigidifying its tentative judgment into a hard and fast rule’ and that the PTO ‘thus must retain power to deal with [such motions] on a case-by-case basis if the administrative process is to be effective.’”\textsuperscript{283}

Despite recognizing the benefits of case-by-case adjudication in \textit{Proxyconn}, the Federal Circuit ultimately reversed course in \textit{Aqua Products}.\textsuperscript{284} There, the en banc court applied the \textit{Chevron} framework, but found that the PTO’s practice of placing the burden of proof on patent owners was not entitled to deference.\textsuperscript{285} At \textit{Chevron} step one, the majority held the

\textsuperscript{277} Id. at 7.
\textsuperscript{278} Id. at 6.
\textsuperscript{280} Id. at 2, 4.
\textsuperscript{281} Id. at 4.
\textsuperscript{282} 789 F.3d 1292, 1307 (Fed. Cir. 2015), overruled by Aqua Prods., Inc. v. Matal, 872 F.3d 1290 (Fed. Cir. 2017).
\textsuperscript{283} Id.
\textsuperscript{284} Aqua Prods., 872 F.3d at 1327–28.
\textsuperscript{285} Id. at 1327.
AIA was ambiguous with respect to which party carries the burden of proof on motions to amend. But at *Chevron* step two, a deeply fractured court ultimately concluded that the PTO failed to adopt a regulation in a manner that was entitled to deference.

Although the court refused deference for the PTO’s decisions, it failed to reach a clear consensus on the reasons for doing so. Instead, the court produced five separate opinions. At one end of the spectrum, Judge Moore concluded that the AIA limited the PTO’s authority to notice-and-comment rulemaking only, and would refuse deference for any other means of regulating AIA reviews. On the other end, Judge Hughes and Judge Chen filed a vigorous dissent explaining why the agency’s position, as articulated in *Idle Free* and *MasterImage 3D*, was entitled to deference under *Chevron*. Other judges took a middle position, and reasoned that shifting the burden of proof was a substantive change in law that lies outside of the PTO’s rulemaking authority, but left the door open for the PTO to use adjudication to resolve other unanticipated policy challenges. For example, Judge Reyna noted that “the subject rule is a significant game change in the *inter partes* review process by setting out a substantive rule that creates and allocates an evidentiary burden to a party, none of which before existed. Such a substantive rule of general applicability should not be reached through ad hoc adjudication.” Of course, this still leaves open the question of whether the Board may use adjudication in rules that are not “significant game changers” or on issues that are more clearly procedural.

Notably, *Aqua Products* reflects the Federal Circuit’s willingness to engage in what Professors Daniel Hemel and Aaron Nielson dubbed “*Chevron* step one-and-a-half.” This inquiry, which evolved at the D.C. Circuit, asks whether the agency itself recognized the statute as ambiguous. If the agency did not identify the statutory ambiguity, then the

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286 *Id.* at 1296.
287 *Id.* at 1327.
288 *Id.* at 1296.
289 *Id.* at 1295.
290 *Id.* at 1334 (Moore, J., concurring).
291 *Id.* at 1358, 1362 (Hughes, J., dissenting).
292 *Id.* at 1339–40 (Reyna, J., concurring).
293 *Id.* at 1339.
295 *Id.* at 760.
court will not conduct a *Chevron* step two reasonableness analysis even if the
court itself concludes that the statute is ambiguous.\(^{296}\) Instead, the court
remands the question back to the agency for additional rulemaking.\(^{297}\)
Applying this reasoning in *Aqua Products*, the Federal Circuit found that the
Board’s regulations on claim amendments failed to acknowledge any
underlying statutory ambiguity in the AIA.\(^{298}\) For example, Judge
O’Malley’s opinion criticized the Board because its regulations made “no
reference to proving propositions of patentability or unpatentability, and no
mention of the words ‘burden of persuasion.’”\(^{299}\) And her opinion also
emphasized that “there is no place in the regulations or relevant commentary
where reference to an ambiguity or statutory silence in either § 316(d) or
§ 316(e) is claimed, explored, or mentioned.”\(^{300}\)

Although this type of analysis has been applied at the D.C. Circuit,
requiring the agency to explore the statutory ambiguity is not typically part
of the *Chevron* step two inquiry, which is limited to whether the agency
interpretation is reasonable.\(^{301}\) Professors Hemel and Nielson also recognize
that this inquiry is not part of the traditional *Chevron* framework.\(^{302}\)
Nevertheless, they argue that applying “*Chevron* step one-and-a-half” may
deter strategic agency behavior, such as claiming the underlying statute is
unambiguous to “reduce the probability that the White House’s Office of
Information and Regulatory Affairs will second-guess the agency’s choice.”\(^{303}\) In *Aqua Products* at least, there is nothing to suggest the PTO
deployed to address the AIA’s statutory ambiguity to evade political
accountability.

At bottom, cases like *Secure Axcess* and *Aqua Products* reflect the court’s
general view that the PTO’s policies on AIA reviews should be subject to
close scrutiny, particularly with respect to the manner by which the PTO
adopts its regulations. And the court does so even while ostensibly applying
the *Chevron* framework. The result is that the PTO will likely have little
leeway in choosing how to regulate AIA reviews.

\(^{296}\) *Id.*

\(^{297}\) *Id.*

\(^{298}\) 872 F.3d 1290, 1318–19 (Fed. Cir. 2017) (en banc).

\(^{299}\) *Id.* at 1318.

\(^{300}\) *Id.* (emphasis added).

\(^{301}\) *Id.* at 1358.

\(^{302}\) Hemel & Nielson, *supra* note 294, at 757.

\(^{303}\) *Id.*
C. Should the Federal Circuit Defer to the PTO?

The previous section observes that *Chevron* deference for the Board’s precedential opinions seems unlikely, even though such decisions are the product of a relatively formal adjudication process. This section looks at whether such close judicial scrutiny is warranted.

To some extent, the court’s approach to the PTO’s regulatory authority is justified because many of the conventional rationales for *Chevron* deference do not fit the PTO. For example, one common rationale for agency deference is relative institutional expertise, which suggests that agencies are better equipped than courts at resolving specific policy issues and figuring out how to apply the law in their specialized areas. Patent law certainly seems like a highly technical area that would benefit from specialized agency expertise. Judge Learned Hand lamented about the “extraordinary condition of the law which makes it possible for a man without any knowledge of even the rudiments of chemistry to pass upon such questions” as patent validity and infringement. So perhaps it makes sense for the PTO to interpret patent law instead of Article III courts. However, this rationale is undermined by the creation of the Federal Circuit as an appellate court with exclusive jurisdiction over patent law. Congress’s response to the need for specialization was not to give the PTO authority over substantive patent issues. Instead, Congress created the Federal Circuit for that purpose. Accordingly, the relationship between the Federal Circuit and the PTO is that

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304 William N. Eskridge, Jr., *Expanding Chevron’s Domain: A Comparative Institutional Analysis of the Relative Competence of Courts and Agencies to Interpret Statutes*, 2013 Wis. L. Rev. 411, 421–22 (2013) (describing the “conventional wisdom” that agencies have greater expertise than courts in interpreting statutes that carry out their purpose).


of a specialty court supervising a similarly specialized agency. This is different from the relationship between regional circuits and other agencies, in which courts of general jurisdiction review decisions made by specialized agencies.

The PTO’s lack of authority over substantive patent law further underscores why relative institutional expertise does not justify *Chevron* deference. Deferring to the institutional expertise of agencies such as the EPA makes sense, since they are equipped with scientific and policy experts to help craft substantive regulations. It does not follow, however, that the PTO is better situated to resolve procedural issues that emerge during AIA reviews such as the scope of covered business methods, real parties in interest, or joinder practice. Many aspects of AIA reviews mirror district court litigation by design. Thus, the Board largely grapples with similar procedural issues that district courts routinely decide, and which appellate courts are accustomed to reviewing. In that sense, the Board’s role in AIA reviews is closer to that of a district court judge than an agency such as the EPA or FTC. Although district courts interpret procedural rules, they are not entitled to deference for their legal interpretations. Certainly, the district court’s interpretation would not prevail over that of an appellate court, whereas an agency’s interpretation would override the court’s view if it was entitled *Chevron* deference.

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309 *See* Benjamin & Rai, *Who’s Afraid of the APA?*, supra note 90, at 313–14 (describing how the Federal Circuit likely has greater expertise with respect to underlying patent statute and the PTO’s policies than other circuit courts).


One could argue the Board still has greater institutional expertise in managing AIA reviews than the Federal Circuit. For example, the standard for motions to amend in AIA reviews is tied to whether proposed amended claims can be adequately reviewed for patentability. In view of the PTO’s experience with patent examination, it might make sense for the PTO to establish standards for amending claims during an IPR. This argument, however, proves too much. District courts resolve procedural issues in discovery and trial more frequently than appellate courts. This does not mean, however, that appellate courts should defer to the district court on how to interpret the Federal Rules.

Another rationale for *Chevron* deference is the need to maintain consistency in specific areas of law. For example, the Supreme Court explained that the NLRB was best suited to establish collective bargaining rules in part because it prevents “a web of detailed rules spun by many different nonexpert antitrust judges and juries.” By allocating rulemaking authority to the agency, the NLRB can craft “a set of labor rules enforced by a single expert administrative body.” But this logic also falls apart when applied to the PTO. Because the Federal Circuit is set up as the primary expositor of patent law, *Chevron* deference for the PTO would not reduce circuit splits or otherwise maintain consistency.

Ultimately, the rationale for deferring to the PTO may simply be that Congress allocated institutional responsibility for regulating AIA reviews to the PTO. At bottom, the AIA does not establish detailed standards or procedures for AIA reviews. Once we accept that the PTO has procedural rulemaking authority, we face the narrower question of whether the Federal Circuit should limit the exercise of the Board’s authority to legislative judgments.

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315 2016 Rule Amendments, *supra* note 128, at 18,754 (explaining that PTO rules for motions to amend accounts for concerns about the absence of independent claim examination by the PTO).


317 2,164 Watches, 366 F.3d at 770.

318 *Pierce*, *supra* note 129, at § 3.4 (“The Supreme Court has recognized the critical role agencies can play in enhancing consistency and coherence.”).


320 See id.

321 *Cotropia*, *supra* note 308, at 806.

322 See, e.g., 35 U.S.C. § 316(a) (2012) (requiring the director to prescribe regulations on various aspects of IPR procedure).
rulemaking. Stated otherwise, given that the Board has procedural rulemaking authority, is there a reason why courts should dictate how the Board exercises that authority? Framed this way, it seems sensible to give the Board wide discretion to make policy through any forum it deems appropriate, including by way of adjudication as well as rulemaking.

Indeed, the Supreme Court has long been reluctant to require agencies to use rulemaking in place of other means for setting policy. In Chenery, the court explained that “any rigid requirement [of legislative rulemaking] would make the administrative process inflexible and incapable of dealing with many of the specialized problems which arise.”\(^\text{323}\) Likewise, in Bell Aerospace, the Court again noted “the choice between rulemaking and adjudication lies in the first instance within the [agency]’s discretion.”\(^\text{324}\) In that case, the NLRB used adjudication to determine which employees qualified as “managerial” and thus excluded from the protections of the National Labor Relations Act.\(^\text{325}\) The Court noted that “duties of [employees] vary widely depending on the company or industry. It is doubtful whether any generalized standard could be framed which would have more than marginal utility.”\(^\text{326}\) Because of the varying nature of the problem, the agency “has reason to proceed with caution, developing its standards in a case-by-case manner with attention to the specific character of the buyers’ authority and duties in each company.”\(^\text{327}\)

To further illustrate this point, consider the Federal Election Commission’s (FEC) decision to use adjudication to regulate which organizations are “political committees” that must register with the FEC.\(^\text{328}\) Shortly before the 2004 U.S. election cycle, members of Congress sued the FEC to force the agency to issue regulations instead of using adjudication.\(^\text{329}\) The question of what constitutes a “political committee,” however, depended on factors like the organization’s “fundraising solicitations, contribution sources, public statements and internal documents, and the full range of campaign activities.”\(^\text{330}\) Ultimately, the district court recognized that a legislative rule “may not take into account all the factors required to reach


\(^{325}\) Id. at 294–95.

\(^{326}\) Id. at 294.

\(^{327}\) Id.


\(^{329}\) Id. at 22.

\(^{330}\) Id. at 30.
the correct determination.” The court further noted that the FEC is in a better position to determine how to regulate this issue because “whether a particular legal issue is too multifaceted to be codified requires a nuanced understanding of the regulatory scheme and industry in question.”

The rationales for deferring to agency choice noted in Bell Aerospace and Shays apply with equal force to the PTO. The Federal Circuit recognized this in Proxyconn, where the court affirmed the PTO’s choice of adjudication to regulate motions to amend in IPRs before later reversing course in Aqua Products. In Proxyconn, the court acknowledged that, because IPRs were relatively new proceedings and the agency had little experience managing them, adjudication provided a more flexible approach than “rigidifying its tentative judgment into a hard and fast rule.” One could argue that when the Federal Circuit later revisited this question in Aqua Products, the PTO should have had sufficient experience to promulgate a rule instead of relying on case-by-case adjudication. Nevertheless, whether the agency has enough experience to rigidify a rule instead of relying on a more flexible approach is a question better resolved by the agency itself.

Likewise, consider how the Board evaluates whether a petitioner has identified all the real parties in interest in a petition for AIA review. Like the challenges of defining a “political committee” for elections, it would also be difficult to fashion a comprehensive rule that addresses the myriad of ways that companies structure their relationships and conduct. For example, are individual members of a trade association the real parties in interest to an IPR filed by the association? What if one of the members expressly directed

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331 Id. at 31.
332 Id.
334 For instance, the PTO’s study on motions to amend shows that only a small percentage of such motions were decided on the merits as of mid-2016. United States Patent and Trademark Office, Patent Trial and Appeal Board Motion to Amend Study 3 (Apr. 30, 2016), https://www.uspto.gov/sites/default/files/documents/2016-04-30%20PTAB%20MTA%20study.pdf. Of the motions that were unsuccessful, the Board denied a significant percentage for procedural reasons, because there was an unreasonable number of proposed substitute claims, or the claims improperly enlarged the scope of the patent. Id.
336 Unified Patents Inc. v. Am. Vehicular Scis., LLC, No. IPR2016-00364, Paper 13 at 5–7 (P.T.A.B. June 27, 2016) (holding that Unified Patents does not have to identify its members as real parties in interest because the members exert no meaningful control over the IPRs).
the trade association to file the petition?337 What about parent and subsidiary
 corporations of the petitioner?338 In view of questions like these, the PTO has
 expressly refused to adopt bright-line rules for assessing real party in
 interest.339 Instead, the PTO explained that:

> Whether a party who is not a named participant in a given
> proceeding nonetheless constitutes a “real party in interest”
> or “privy” to that proceeding is a highly fact-dependent
> question. Such questions will be handled by the Office on a
> case-by-case basis taking into consideration how courts have
> viewed the terms “real party in interest” and “privy.”340

In short, who counts as a real party in interest seems to be the type of
problem of a “varying nature” that would be difficult to capture with a general
rule. Rulemaking on such issues risks creating rules that are under-inclusive,
over-inclusive, or off the mark entirely.341 Because such problems are better
suited for adjudication, it makes little sense to force the Board to rely on
quasi-legislative rulemaking to resolve them.

### IV. Thoughts on the Path Forward

This Article identified two broad issues in the Board’s use of adjudication
to regulate AIA reviews. First, the Board has been slow to establish standards
and procedures for AIA reviews, and the Board’s policymaking tools may
not even be adequate to do so. For example, the Board has yet to designate
precedential opinions on common issues like determining real parties in
interest or party joinder. Accordingly, parties must rely on routine opinions

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(holding that Apple directed RPX to file an IPR on its behalf, and therefore was a real party in
interest).

(P.T.A.B. Mar. 20, 2014) (applying the control test for related companies).


340 Id. at 48,759 (citations omitted); see also Message from Chief Judge James Donald Smith,
Board of Patent Appeals and Interferences: USPTO Discusses Key Aspects of New Administrative

341 Mark Moller, Procedure’s Ambiguity, 86 IND. L.J. 645, 651 (2011) (“Because each case is
different and material differences are often so varied and subtle that they cannot be catalogued in
advance, it is often difficult to specify the conditions for many routine managerial decisions, even
those with significance for the parties.”).
that are not binding. For its part, the PTO recognizes the need to maintain uniformity, as shown by the Director’s use of expanded panels and push to designate more precedential opinions. But as discussed in Section II.C., expanded panel opinions do not ensure uniformity among board opinions because they are not binding.342 Indeed, the Federal Circuit has expressed reservations about the propriety of expanded panels to establish uniformity.343 Second, the Federal Circuit’s recent decisions cast doubt on whether any decisions from the Board, whether precedential or routine, will be entitled to deference.344 This uncertainty will surely make reliance on the Board’s precedential decision even more tenuous.

One possible solution for the lack of procedural standards is to provide a limited intra-agency review process for AIA reviews, as some practitioners have already suggested.345 For example, Steinberg et al. proposed amending the Board’s rules to create an “en banc” review process for institution decisions.346 Although Steinberg’s proposal was designed to provide “an internal check” of institution decisions, such a review process could help establish more binding precedents that should, in theory, qualify for Chevron deference. One can imagine an intra-agency review process where dissatisfied parties could petition the Director to convene an expanded panel to review a Board decision. In Steinberg’s proposal, for example, parties would request review of institution decisions by an expanded Board panel, and the resulting opinions would be designated as informative.347 The Chief Judge would review the expanded panel opinions and decide whether to make the opinions precedential within six months.348 Such an intra-agency review process can be used to create a body of precedential opinions that is entitled to judicial deference, replacing the current patchwork of ad hoc expanded panels and precedential opinions.

Creating precedents through intra-agency review may also incentivize litigants to be more active in identifying inconsistent board decisions and unclear standards. One reason for why precedential opinions are underused is that private parties have little reason to identify opinions that should

342 See supra Section II.C.
344 See supra Section III.B.
345 Steinberg, supra note 207.
346 Id.
347 Id.
348 Id.
become precedential. By contrast, if losing parties could overturn a Board decision without appealing to the Federal Circuit, they may be more motivated to identify conflicting precedents, significant legal issues, or other reasons why a panel should be reversed. At the federal appellate level, en banc reviews are useful tools for maintaining intra-circuit uniformity in part because the litigants are incentivized to identify conflicting precedents.349 Further, panel decisions that are reviewed by the PTO Director and that become binding precedent should be entitled to greater judicial deference.350 By requiring the Director to review expanded panel opinions and designating them as precedential where appropriate, the Board will generate more opinions that reflect the position of the agency, not merely individual panels.

Designating more precedential opinions will be a step in the right direction. But ultimately, the Federal Circuit will need to harmonize the PTO with administrative law. The adjudicatory role of the Board has steadily expanded over the past forty years.351 That expansion has been particularly dramatic since the AIA, with the PTO now playing a vital role in patent enforcement and litigation. Judge Henry Friendly once observed that clear standards and procedure for administrative adjudication not only “encourag[es] the security of transactions,” but also ensures the agencies are ultimately accountable to the public.352 For the PTO to remain an effective and reliable forum for adjudicating patent validity, it will need to establish clear rules and standards. That can only happen if the scope of the PTO’s authority is clear, and the PTO is equipped with the right procedural tools to set policy.

349,FED. R. APP. P. 35(b) (allowing parties to petition the court to rehear cases en banc).
350,See supra Section III.A.
351,Golden, Working Without Chevron, supra note 8, at 1660–61, 1666–68.