

No. 16-483

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IN THE  
**Supreme Court of the United States**

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SIGHTSOUND TECHNOLOGIES, LLC,

*Petitioner,*

*v.*

APPLE INC.,

*Respondent.*

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ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED  
STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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**BRIEF OF *AMICUS CURIAE*  
BIOTECHNOLOGY INNOVATION  
ORGANIZATION IN SUPPORT OF  
PETITION FOR CERTIORARI**

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## INTEREST OF THE *AMICUS CURIAE*<sup>1</sup>

The **Biotechnology Innovation Organization** (“**BIO**”) is the principal trade association representing the biotechnology industry. BIO has over 1,100 members, which span the for-profit and non-profit sectors and range from small startup companies and biotechnology centers to research universities and Fortune 500 companies. Approximately 90% of BIO's corporate members are small or mid-size businesses that have annual revenues of under \$25 million.

Because modern biotechnological products commonly involve lengthy, resource-intensive development periods, BIO's members depend heavily on a strong, stable, uniform system of patent rights and protections. Indeed, according to a recent study, the average cost for discovering, developing and seeking regulatory approval for a new drug (including projects that do not succeed) is \$2.558 billion.<sup>2</sup> These costs are greatest in the last stages of

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<sup>1</sup> All parties consented to the filing of this brief. The parties' written consent is submitted with this brief. No counsel for a party authored any part of this brief, and no person other than *amicus curiae*, its members, or its counsel made a monetary contribution to its preparation or submission. *Amicus* takes no position on the validity or infringement of the patents underlying this long-standing dispute, and does not have an interest in which of the parties will ultimately prevail.

<sup>2</sup> Joseph A DiMasi, et al., “Innovation in the pharmaceutical industry: new estimates of R&D costs,” 47 J. HEALTH ECON. 20 (May 2016). *See* Tufts Center for the Study of Drug Development, “News: Tufts CSDD R&D Cost Study” (March 2016),

the drug's development. Without the promise of effective patent rights, these investments would be far more difficult. Many BIO members devote years and millions of dollars to innovations protected by a single patent, leaving members especially vulnerable to the misapplication of patentability doctrines. In biopharma technology, vague patent claims and overbroad patent thickets like those in other fields are rare; patents are typically sought to protect exclusivity, not to extract industrywide royalties; and evaluating prior art combinations for obviousness purposes is an unusually sophisticated inquiry.

Patents have faced daunting odds in America Invents Act proceedings. According to the most recent available statistics, 63% of petitions to institute review in these proceedings are granted.<sup>3</sup> Of patents that reach a final written decision after institution, over 80% have had at least some claims cancelled.<sup>4</sup> Of those decisions from which appeals are taken and heard, over 90% are affirmed.<sup>5</sup> Given

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[http://csdd.tufts.edu/news/complete\\_story/pr\\_tufts\\_csdd\\_2014\\_cost\\_study](http://csdd.tufts.edu/news/complete_story/pr_tufts_csdd_2014_cost_study) (last visited Nov. 10, 2016).

<sup>3</sup> See United States Patent & Trademark Office, Patent Trial And Appeal Board Statistics (Sep. 30, 2016) (“PTAB Statistics”), at 8, [https://www.uspto.gov/sites/default/files/documents/aia\\_statistics\\_september2016A.pdf](https://www.uspto.gov/sites/default/files/documents/aia_statistics_september2016A.pdf) (last visited Nov. 10, 2016).

<sup>4</sup> *Id.* at 10-12. In approximately 70% of such decisions, all claims under review are cancelled. *Id.*

<sup>5</sup> Andrew Williams, “The PTAB And The Federal Circuit—One Year Later,” *JDSupra Business Advisor* (Mar. 8, 2016), <http://www.jdsupra.com/legalnews/the-ptab-and-the-federal-circuit-one-49397/> (last visited Nov. 10, 2016).

these high odds, AIA petitions have been consistently popular, with 5,656 filed in their first four years of existence.<sup>6</sup> Biopharmaceutical patents are becoming an increasingly common target. The percentage of AIA petitions challenging biopharmaceutical patent claims has risen from 6% in 2014, to 9% in 2015, to 13% in 2016.<sup>7</sup> And AIA petitions targeting biopharma patents are increasingly brought not by fellow biopharma concerns who wish to compete, but by third parties such as hedge funds making market wagers by challenging a biopharma patent in an AIA petition while shorting the patent owner's (or licensee's) stock.<sup>8</sup>

Given the importance of patents to BIO's members' businesses and biopharmaceutical innovation, and the increasing significance of AIA petitions challenging their patents, BIO's members have a strong interest in ensuring appropriate

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<sup>6</sup> PTAB Statistics, *supra* n.3, at 2.

<sup>7</sup> *Id.* at 5.

<sup>8</sup> Joseph Walker & Rob Copeland, "New Hedge Fund Strategy: Dispute The Patent, Short The Stock," WALL STREET JOURNAL (Apr. 7, 2015), <http://www.wsj.com/articles/hedge-fund-manager-kyle-bass-challenges-jazz-pharmaceuticals-patent-1428417408>; Jim Greenwood, "BIO Statement Following Kyle Bass' IPR Petition," BIO (Feb. 11, 2015), <https://www.bio.org/media/press-release/bio-statement-following-kyle-bass-ipr-petition>; J. Gregory Sidak & Jeremy Skog, "Attack Of The Shorting Bass: Does The *Inter Partes* Review Process Enable Petitioners To Earn Abnormal Returns?," 63 UCLA L. REV. DISC. 120 (2015), <http://www.uclalawreview.org/attack-shorting-bass-inter-partes-review-process-enable-petitioners-earn-abnormal-returns/> (all last visited Nov. 10, 2016).

judicial review is available to ensure that the PTO's Patent Trial and Appeal Board acts within its statutory and regulatory authority.

### SUMMARY OF ARGUMENT

Congress enacted provisions permitting judicial review of AIA proceedings, codified at 35 U.S.C. §§319 and 329, and countervailing provisions partially barring review, *see* §§314(d) and 324(e).<sup>9</sup> In *Cuozzo Speed Technologies, LLC v. Lee*, 136 S. Ct. 2131 (2016), this Court addressed the scope of the latter provisions. *Cuozzo's* main focus was the proper legal standard for AIA claim construction, a question resolved unanimously. A divided Court also addressed the scope of judicial review of AIA proceedings in narrow and particular circumstances.

The *Cuozzo* majority held that §314(d) does more than merely bar interlocutory appeal of institution decisions in AIA proceedings, but generally bars judicial review of PTAB rulings in institution decisions, even *after* a final written decision on the merits, if the ruling related to the “application and interpretation of statutes related to the Patent Office’s decision to initiate review.” *Id.* at 2141. The *Cuozzo* majority made clear that its interpretation of §314(d) did not give the PTAB free rein to “act outside of its statutory limits,” or to act “arbitrar[il]y and capricious[ly],” immune from judicial review. *Id.* at 2141-42, 2146.

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<sup>9</sup> All statutory citations are to U.S.C. Title 35 unless otherwise noted.

Under these general principles, the appeal before the Court in *Cuozzo* was straightforward. The petitioner had explicitly requested review of a dependent patent claim for obviousness on a particular ground, and the Board instituted review on that ground not only of that claim but also of the broader claims upon which it depended. As a matter of law and simple logic, a broader claim is necessarily obvious where a dependent claim stemming from it is obvious. If the PTAB invalidates the dependent claim, that determination extends to its fellow, broader claims. Accordingly, the PTAB's decision to institute review of the implicitly challenged claims as well as the explicitly challenged claim raised a "minor statutory technicality" relating to the decision to institute, and was, therefore, not subject to judicial review. *Id.* at 2140.

This case raises a more troubling and far-reaching question. Here, the petitioner below challenged the patent claims as *anticipated* (*i.e.*, exactly disclosed) by the prior art. In its institution decision, the PTAB instituted review not only on that ground, but also, *sua sponte*, on an *obviousness* ground the petitioner did not assert. The PTAB did not describe its obviousness theory with any particularity, instead merely indicating that it thought some combination of up to twelve related prior art references likely rendered the claims unpatentable. The patent owner was then forced to litigate against the PTAB's theory without knowing the specifics of what it was, or even on what specific combination or combinations it was based.

Eventually, the PTAB rejected the petitioner's asserted *anticipation* ground on the merits, but also adjudicated the *obviousness* ground it itself raised, the details of which the Board revealed for the first time in its final written decision, and on that basis found the claims unpatentable. Lastly, the PTAB allowed the patent owner to argue that it should change its mind about its theory of unpatentability—now that it had been fully revealed at last—and then declined to do so.

This case, then, presents a critical issue never addressed in *Cuozzo*: whether patent owners in AIA proceedings should be forced to defend against statutory grounds of unpatentability added by the PTAB, *sua sponte* and with no fair notice, without the possibility of judicial review. The Federal Circuit's "yes" answer should be promptly reconsidered and the scope of reviewability clarified.

This case falls squarely within the cases this Court indicated in *Cuozzo* are appropriate for judicial review. The PTAB's action here failed to give the patent owner notice of how it must defend its patent, and exceeded the PTAB's statutory and regulatory authority. The PTAB's action here also contradicted rulings in other AIA cases that have found that the PTAB is not free to adopt arguments on behalf of AIA petitioners that the petitioners did not raise.

Congress placed the burden on petitioners to prove the unpatentability of instituted claims in AIA

proceedings. A court lacks authority to invalidate patents on its own initiative, and in AIA proceedings so does the PTAB. If the PTAB institutes review based on a ground the petitioner did not assert, it deprives the patent owner of a chance to argue against a preliminary finding of unpatentability, and effectively shifts the burden to the patent owner to prove that finding wrong.

These basic errors are compounded by an even more basic one. In contrast to the proceedings in *Cuozzo*, the PTAB's final decision here expressly addressed the question whether it had the authority to institute proceedings on this *sua sponte* ground. Congress made final written decisions in AIA proceedings judicially reviewable. To deny review of this question when it is addressed in the PTAB's ***final written decision***, whether or not it was first addressed on a preliminary basis in the ***institution*** decision, runs counter to not only this Court's strong presumption of judicial review, but the text of the AIA.

The time is ripe for this Court to intervene. The Federal Circuit has proved unable to provide reliable guidance about the reviewability of determinations in AIA proceedings. Both before and after *Cuozzo*, its decisions have been confusing, contradictory and divided. Some decisions have barred review of any PTAB ruling unless it goes to the PTO's ultimate authority to cancel the patent had a better-conceived petition hypothetically been filed. This judicially-fashioned bar effectively makes

Congress's limits on the PTO's power to institute review in particular cases unenforceable. In other decisions, however, the Federal Circuit has found reviewable and rejected as *ultra vires* the PTAB's adoption of "arguments on behalf of petitioners that could have been, but were not, raised by the petitioner." The result is crippling uncertainty for BIO members who face large business risks in these fast-moving proceedings. This petition gives the Court an important opportunity to clarify when determinations in AIA proceedings pertaining to the scope of the agency's authority are reviewable.

### ARGUMENT

This case concerns covered business method patent review (CBM), a patent proceeding created in the America Invents Act along with two other closely related proceedings, *inter partes* review (IPR) and post-grant review (PGR). All these proceedings are conducted before the Patent Trial and Appeal Board (PTAB) of the U.S. Patent and Trademark Office (PTO). These proceedings allow the PTAB to invalidate issued U.S. patents on various grounds if petitioned to do so—even if the patents are of long standing or been previously upheld. Congress enacted provisions that permit judicial review of some, though not all, of the PTAB's rulings in AIA proceedings.

This Court first addressed the extent to which the PTAB's decisions in AIA proceedings are reviewable in *Cuozzo Speed Technologies, LLC v.*



*Lee*, 136 S. Ct. 2131 (2016). The facts of *Cuozzo* were straightforwardly resolved in favor of unreviewability. This case presents a significantly more difficult and important question, and is an opportune vehicle for the Court to provide important further clarification of the scope of AIA reviewability. The Federal Circuit has failed to offer the PTO or parties a clear rule or guidance on the reviewability question, even after *Cuozzo*, and as the Federal Circuit receives a growing number of AIA cases the number of such questions reaching this Court is beginning to mount.

**A. On The Issue Of Judicial Reviewability, *Cuozzo* Presented A Relatively Easy Question.**

*Cuozzo* arose in an appeal from a final written decision in an IPR. *Id.* at 2136. In *Cuozzo* the chief focus of this Court's decision, and the great majority of the briefing, was on the proper legal standard for claim construction, a question resolved unanimously and not pertinent here. *Id.* at 2142, 2149 n.1.

Separately, with Justices Alito and Sotomayor in dissent, this Court also addressed the scope of judicial review in AIA adjudicatory proceedings. *Id.* at 2139 (majority), 2149 (dissent). On this question the principal debate, between the Justices as well as the parties, was whether the AIA's bar on judicial review of certain PTAB rulings in IPRs (codified at §314(d)) entirely precluded review of certain PTAB rulings, or merely insulated institution decisions from interlocutory review. *Cuozzo*, 136 S. Ct. at

2140. The majority, per Justice Breyer, found that §314(d) did not simply bar interlocutory appeals, but rather barred review of “questions that are closely tied to the application and interpretation of statutes related to the Patent Office’s decision to initiate review.” *Id.* at 2141. The majority made clear, however, that not all review of institution decisions was precluded:

[W]e do not categorically preclude review of a final decision where a petition fails to give ‘sufficient notice’ such that there is a due process problem with the entire proceeding, nor does our interpretation enable the agency to act outside of its statutory limits by, for example, cancelling a patent claim for ‘indefiniteness under §112’ in inter partes review. Such ‘shenanigans’ may be properly reviewable in the context of §319 and under the Administrative Procedure Act, which enables reviewing courts to ‘set aside agency action’ that is ‘contrary to constitutional right,’ ‘in excess of statutory jurisdiction,’ or ‘arbitrary [and] capricious.’

*Id.* at 2141-42 (citations omitted).

Once it was decided that §314(d) is not merely a bar on interlocutory review, *Cuozzo* was a straightforward case on the reviewability question. The party challenging the patent in *Cuozzo* filed an

IPR petition raising a ground of unpatentability for obviousness, expressly asserting this ground against a dependent claim (claim 17), but not against the other, broader claims in the patent from which that claim depended. *Cuozzo*, 136 S. Ct. at 2138. The PTAB instituted review on the challenged dependent claim on the asserted obviousness ground. But it went on to note that its review on this ground would also extend to claims 10 and 14, from which claim 17 depended—because those broader claims were necessarily “implicitly” challenged on the same ground as claim 17. Following briefing and a hearing, the PTAB issued a final written decision finding all three claims unpatentable on the ground asserted in the petition. *Id.*

On this point *Cuozzo* was an easy case, for the PTAB was merely stating the obvious. A dependent patent claim is narrower than the claims from which it depends, for it includes not only the limitations it recites, but also every limitation recited in the claim or claims from which it depends.<sup>10</sup> As a matter of simple logic and elementary patent law, “[a] broader independent claim cannot be nonobvious where a dependent claim stemming from that independent claim is invalid for obviousness.” *Callaway Golf Co. v. Acushnet Co.*, 576 F.3d 1331, 1344 (Fed. Cir. 2009). Thus, an invalidity determination on the dependent claim extends equally to the broader independent claim, even if the independent claim

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<sup>10</sup> “A claim in dependent form shall be construed to incorporate by reference all the limitations of the claim to which it refers.” §112(d).

“was not explicitly invalidated” in that decision. *Soverain Software LLC v. Victoria’s Secret Direct Brand Mgmt.*, 778 F.3d 1311, 1315 (Fed. Cir. 2015). Therefore, if the PTAB found the dependent claim unpatentable, that determination would necessarily extend, on the same ground, to the broader claims from which that claim depended. Indeed, if the broader claims were not included in the review the patent owner might be left with claims not expressly found unpatentable, but to which an unpatentability determination on claim 17 would necessarily extend. *See Soverain*, 778 F.3d at 1315. This Court recognized this tautology, noting that the claims in question were “logically linked” and would “fall together” if claim 17 was invalidated. *Cuozzo*, 136 S. Ct. at 2139 (citation omitted).

It thus made eminent sense for the PTAB to analyze and determine the patentability of all three claims on the ground asserted against claim 17. *See id.* Therefore, the PTAB’s decision to institute review of the broader, impliedly challenged claims, as well as the narrower, expressly challenged claim, raised only a “minor statutory technicality” relating to the decision to institute, and was not subject to judicial review. *Cuozzo*, 136 S. Ct. at 2140.

**B. The PTAB’s Challenged Action Here Is Materially Different From The One In *Cuozzo*.**

Compared to *Cuozzo*, the case *sub judice* raises a more difficult and important question. The difference is not because *Cuozzo* arose from an IPR

and this case arises from a CBM; the reviewability provisions for IPRs, CBMs and PGRs are textually identical. *Compare* §§ 314(e) & 319 (IPRs); §§ 324(d) & 329 (CBMs/PGRs).<sup>11</sup> The two cases are also akin in that both *Cuozzo* and this case involve the Board instituting review beyond that expressly requested. But there is a significant difference between the two, and it lies in the more troubling consequences of the Board's more radical action here.

In this case, the petition<sup>12</sup> asserted a ground of unpatentability based on *anticipation*. The petition did not assert an *obviousness* ground over the prior art references that are at issue in this case<sup>13</sup>; nor did it request review based on such obviousness. App. 193a-194a, 229a-230a. The PTAB's institution decision duly considered, and instituted review based on, the expressly asserted anticipation ground. App. 186a-189a. But the PTAB went farther. *Sua sponte*, it also instituted review on the basis of *obviousness* over some or all of twelve prior art references relating to "Compusonics" cited in the Petition—a ground of review that was not raised or requested in the Petition. App. 189a-190a, 224a-225a.

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<sup>11</sup> The fact that this case arises from a CBM does make it an especially apt vehicle for certiorari, because of the greater variety of unpatentability grounds that may be raised in CBMs than IPRs.

<sup>12</sup> There were in fact four petitions, which may be treated as one here.

<sup>13</sup> Petitioner included an obviousness ground based upon a different set of prior art but the PTAB did not institute that ground.

The PTAB indicated it had perceived this new ground for itself in the record, and concluded it had a reasonable likelihood of success. The PTAB did not describe its *sua sponte* obviousness theory with any particularity. It simply suggested that the challenged claims were likely obvious over one or more of these twelve related prior art references, without pointing to any specific combination or combinations of those one to twelve references as the basis for the potential obviousness. *Id.*

As explained below, the PTAB's institution of review on this unasserted ground introduced important legal and factual issues not addressed by the petition's express allegations. Furthermore, the PTAB's failure to specify the basis of this obviousness ground created daunting procedural burdens for the patent owner, effectively flipping the burdens that the statute places on petitioners onto the patent owner instead.

**a. Anticipation And Obviousness Are Vastly Different Inquiries.**

There are important differences between proving and rebutting anticipation under §102 and proving and rebutting obviousness under §103. As the former Court of Customs and Patent Appeals explained over half a century ago:

A rejection under section 102 involves a comparison between the subject matter disclosed by the reference and the

claimed invention, in order to determine whether the claimed invention is “described” in the reference. Section 103, on the other hand, requires consideration of the differences between the claimed invention and the prior art, for the purpose of determining whether the claimed subject matter as a whole would have been “obvious” to one of ordinary skill in the art. Thus, *the issues arising under the two sections may be vastly different, and may call for the production and introduction of quite different types of evidence.*

*In re Hughes*, 345 F.2d 184, 185-86 (C.C.P.A. 1965) (emphasis added); *see also Pfizer, Inc. v. Lee*, 811 F.3d 466, 472 (Fed. Cir. 2016) (holding that the core of § 132’s statutory “noti[ce]” requirement for grounds of rejection in patent examination is “that an applicant *at least* be informed of the broad *statutory basis* for the rejection for his claims, *so that he may determine what the issues are on which he can or should produce evidence.*”) (emphases added, citations omitted).<sup>14</sup>

*Anticipation* is an exacting unpatentability standard requiring that “a single prior art

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<sup>14</sup> Former §132, now §132(a), provides: “Whenever, on examination, any claim for a patent is rejected, . . . the Commissioner [of Patents] shall notify the applicant thereof, stating the reasons for such rejection, . . . together with such information and references as may be useful in judging of the propriety of continuing the prosecution of his application.”

disclosure” show “within the four corners of the document not only all of the limitations claimed but also all of the limitations *arranged or combined in the same way as recited in the claim.*” *Therasense Inc. v. Becton, Dickinson & Co.*, 593 F.3d 1325, 1332 (Fed. Cir. 2010) (emphasis in original). In contrast, ***obviousness*** places a burden on the party challenging validity to identify a specific combination of prior art references, an adequate reason to combine those references, and a reasonable expectation of success in making that combination. *See, e.g., Merck & Cie v. Gnosis S.p.A.*, 808 F.3d 829, 833 (Fed. Cir. 2015). “The tests for anticipation and obviousness are different” and “require different elements of proof”; and many factual inquiries critical to obviousness or nonobviousness, such as teaching away in the prior art and other “secondary considerations” of nonobviousness, are categorically irrelevant to anticipation. *Cohesive Techs., Inc. v. Waters Corp.*, 543 F.3d 1351, 1364 & n.2 (Fed. Cir. 2008) (citation omitted). Thus, because only anticipation was asserted in the petition as to these reference, the petition failed to address many questions relevant to this obviousness ground; the patent owner was not on notice that such questions were relevant to institution; and the PTAB, by proposing this new ground of obviousness, effectively shifted the burden to the patent owner to rebut a preliminary obviousness determination that it had no warning the institution decision might include.



**b. The PTAB Failed To Provide Adequate Notice Of Its Obviousness Theory.**

Making matters worse, the PTAB never explained its obviousness theory with particularity, including which or how many of twelve different references it proposed to combine, *until* its final written decision found the claims obvious. Without notice of the particular basis of the purported likely obviousness, the patent owner was forced to submit briefing and evidence defending its patent claims without ever knowing at what targets to aim its rebuttal.

It is well-settled that the PTO's rejection of patent claims as unpatentable without adequate notice of the statutory and factual basis violates basic procedural rights. Overturning an obviousness rejection by the PTAB (then named the "Board of Patent Appeals and Interferences"), the Court of Customs and Patent Appeals wrote:

[W]e do not think appellants were adequately notified of the reasons for those rejections as required by procedural due process and 35 USC [§]132. We can see at least eighteen possible rejections (two § 112 rejections, one § 102, and 15 § 103 rejections, taking the various possible combinations of the references into consideration) in the board's opinion. None of these possible rejections was

spelled out with any degree of particularity whatsoever, and we certainly can understand appellants' confusion in regard thereto. . . . Appellants have attempted in their brief to guess at what the various rejections were and to respond to them. The fact that they have done so does not bring those issues before us. If we were to consider all those issues on this appeal, we would be doing so without affording appellants an opportunity to be heard in the administrative tribunals of the Patent Office.

*In re Ludtke*, 441 F.2d 660, 662 (C.C.P.A. 1971) (citations omitted); *see also, e.g., Rambus Inc. v. Rea*, 731 F.3d 1248, 1255-56 (Fed. Cir. 2013) (Board's disclosure of obviousness rationale for first time in its final decision, without first "provid[ing] the [patent owner] with an opportunity to respond[,] . . . violates [his] notice rights and warrants vacatur"); *In re Wiechert*, 370 F.2d 927, 933 (C.C.P.A. 1967) (Board's disclosure of obviousness rationale for first time in its final decision violated "due process"). Likewise, in the present case, the PTAB announced that obviousness was at issue under a multitude of possible combinations,<sup>15</sup> but failed to spell out any

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<sup>15</sup> For comparison, in the present case the number of possible combinations, mathematically speaking, of one to twelve references that could be made was 4,095 ( $2^{12} - 1$ ). Needless to say, when patent owner presented its rebuttal arguments, it faced a daunting task to guess what combination or combinations the PTAB had in mind.

*particular* obviousness argument until its final written decision.

This case presents a critical issue never addressed in *Cuozzo*: whether patent owners in AIA proceedings should be forced to defend against statutory grounds of unpatentability added by the PTAB, *sua sponte* and without particularity, without the possibility of judicial review. The Federal Circuit's troubling "yes" answer should be reconsidered, and the scope of reviewability clarified.

### **C. Unlike In *Cuozzo*, The PTAB Here Violated Both Statutory And Regulatory Limitations.**

Unlike the PTAB's action in *Cuozzo*, the PTAB's action here, even if it did not contravene the statute, unambiguously contravened PTO regulations.

In addition to the procedure and notice problems of *sua sponte* instituting review on unraised grounds, it is plain that neither Congress nor the PTO contemplated the PTAB taking such action. Congress required that the "petition identif[y], in writing and with particularity, . . . the grounds on which the challenge to each claim is based, and the evidence that supports the grounds for the challenge to each claim." §322(a)(3). The PTO's own regulations are still clearer. They authorize the PTAB to institute review only "on all or some of the *grounds* of unpatentability *asserted*

for each claim.” 37 CFR §42.208(a) (emphases added).<sup>16</sup>

“It is a familiar rule of administrative law that an agency must abide by its own regulations,” *Ford Stewart Sch. v. FLRA*, 495 U.S. 641, 654 (1990), and courts consistently strike down agencies’ actions in violation of their own regulations as “arbitrary and capricious,” *Achernar Broadcasting Co. v. FCC*, 62 F.3d 1441, 1448 (D.C. Cir. 1995), or “procedural error,” *Esch v. Yeutter*, 876 F.2d 976, 991 (D.C. Cir. 1989). No rule grants the PTAB authority to institute on unasserted grounds.

Indeed, the AIA in §316(e) places the burden on the petitioner to prove the unpatentability of instituted claims, one of the “adjudicatory characteristics” that, as this Court noted in *Cuozzo*, “make these agency proceedings similar to court proceedings.” 136 S. Ct. at 2143. A court does not have authority to invalidate patents on its own initiative. *See Lannom Mfg. Co. v. U.S. Int’l Trade Comm’n*, 799 F.2d 1572, 1579 (Fed. Cir. 1986). Neither does the PTAB in AIA proceedings. The AIA’s legislative history made clear that “[o]ne **important structural change**” that the bill made, as compared to previously-existing “inter partes **reexamination**” procedures like those the bill repealed, was to make AIA reviews “an adjudicative proceeding in which the petitioner, rather than the

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<sup>16</sup> This rule applies to CBMs. 37 CFR §42.300(a); *see also* 37 CFR §42.108(a) (IPRs).

Office, bears the burden of showing unpatentability.” 157 Cong. Rec. S1360, S1365 (Mar. 8, 2011) (stmt. of Sen. Kyl) (emphases added). In the new proceedings the PTAB was to be an adjudicator that “simply decides whether the challenger has met his burden,” 157 Cong. Rec. S1034, S1041 (Mar. 1, 2011) (stmt. of Sen. Kyl), *see also* H.R. Rep. No. 112-98, pt. 1, at 8—not an active participant adding grounds and arguments the Petitioner did not.<sup>17</sup>

**D. Unlike In *Cuozzo*, The PTAB Here Acted Arbitrarily And Capriciously.**

In addition to being *ultra vires*, the PTAB’s decision here arbitrarily departs from its decisions in other AIA cases, which have recognized its limited authority to institute review on unraised grounds. For example, in *HBPSI-Hong Kong Ltd. v. SRAM, LLC*, IPR2013-00174, Paper 21 at 8 (P.T.A.B. Aug. 12, 2013), the PTAB refused to consider a new ground Petitioner sought leave to add, holding that under the AIA a “petition seeking *inter partes* review should be complete at the time it is filed in connection with the asserted grounds of unpatentability and the evidence and analysis offered in support thereof.” Other PTAB decisions have recognized that the PTAB is not “free to adopt

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<sup>17</sup> As this Court noted in *Cuozzo*, the PTO Director may reevaluate, “on her ‘own initiative,’” the patentability of any patent, by ordering its “reexamination.” 136 S. Ct. at 2137 (quoting §303(a)). The Director’s authority to *reexamine* any patent on her own initiative, however, is not authority for the PTAB to invalidate any patent *in AIA adjudicative proceedings* on its own initiative.

arguments on behalf of petitioners that could have been, but were not raised by the petitioner during an IPR,” and cannot “reformulate[]” petitions to institute review based on arguments and evidence not “actually presented”:

Petitioner has the responsibility to identify and explain in the petition specific evidence that supports its arguments. We must make our determination regarding institution based on what the Petition actually presented and not what it could have reasonably contained had it been reformulated.

*Securus Technologies, Inc. v. Global Tel\*Link Corp.*, IPR2016-00267, Paper 10 at 5-6 (P.T.A.B. Sep. 12, 2016).<sup>18</sup>

In still other AIA cases the PTAB has refused to institute review on obviousness grounds not set forth with particularity in the petition. *See, e.g., Olympus Am. Inc. v. Perfect Surgical Techniques*,

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<sup>18</sup> *See also, e.g., Nautilus Hyosung Inc. v. Diebold, Inc.*, IPR2016-00633, Paper 9 at 19-20 (P.T.A.B. Aug. 22, 2016) (“Thus, Petitioner does not satisfy its burden of proving obviousness based on Mennie regarding the required two magnetic read heads. . . . [A]lthough we recognize Mennie’s teachings concerning magnetic sensors, we are not free to adopt arguments on behalf of petitioners that could have been, but were not, raised by the petitioner during an *inter partes* review.”) (alteration markings omitted).

*Inc.*, IPR2014-00241, Paper 24, at 8, 2014 Pat. App. LEXIS 4682, at \*10-13 (P.T.A.B. Jul. 28, 2014) (refusing to institute on obviousness combinations “not asserted ‘with particularity’ in the petition”) (emphasis in original), *aff’d mem.* 2016 U.S. App. LEXIS 11261 (Fed. Cir. Jun. 9, 2016) (per curiam) (nonprecedential); *Medtronic, Inc. v. Lifepoint Scis. LLC*, IPR2014-00284, Paper 15, at 4-5, 2014 Pat. App. LEXIS 4683, at \*3-6 (P.T.A.B. Jul. 22, 2014) (refusing to institute on obviousness “ground not asserted in the Petition,” despite the fact that it “may support Petitioner’s ultimate conclusion” of unpatentability, because it had not been “advanced” by Petitioner).

The PTAB’s unexplained inconsistency in this regard is further evidence that its action here was arbitrary and capricious. *See, e.g., Hooper v. NTSB*, 841 F.2d 1150, 1150 (D.C. Cir. 1988) (per curiam) (“Because the agency has from time to time and without explanation deviated from its enunciated policy, applied here, we hold its action arbitrary and capricious.”).

**E. Unlike in *Cuozzo*, The PTAB Here Revisited The Question In Its Final Decision And Treated It As Jurisdictional.**

Even if the PTAB’s decision were not judicially reviewable under basic administrative law principles, it is reviewable for two further statutory reasons.

First, unlike in *Cuozzo*, here the PTAB **revisited** the question whether it properly instituted on this *sua sponte* ground in the final written decision, superseding its preliminary conclusion in the institution decision. App. 50a-52a. Final written decisions are expressly reviewable under the AIA. §329 (“A party dissatisfied with the final written decision . . . may appeal the decision”). Finding review of a determination in a final written decision unreviewable merely because it was originally addressed on a preliminary basis in the institution decision would be counter to not only the “‘strong presumption’ in favor of judicial review” that this Court recognized in *Cuozzo*, 136 S. Ct. at 2140, but the plain language of the AIA.

Second and relatedly, both the patent owner and the PTAB expressly treated the question whether the PTAB could properly institute on its *sua sponte* obviousness ground as one of ***whether the Board had “exceeded the scope of [its] jurisdiction.”*** App. 50a (emphasis added). In *Cuozzo*, this Court held that, notwithstanding §316(e)’s bar on review of institution decisions, questions of whether the “agency act[s] . . . ***in excess of statutory jurisdiction***” may be “properly reviewable,” under the auspices of either the AIA or the Administrative Procedure Act. 136 S. Ct. at 2141-42 (citations and quotation marks omitted, emphasis added). In other words, the PTAB characterized this ruling as exactly the sort of determination that this Court identified in *Cuozzo* ***may*** be judicially reviewable under §316(e).



## **F. The Federal Circuit Has Offered Inconsistent Guidance.**

The time is ripe for this Court's review. Before this Court decided *Cuozzo*, the Federal Circuit's interpretations of the AIA's judicial reviewability provisions failed to provide reliable guidance about the reviewability of PTAB determinations in AIA proceedings. After this Court's *Cuozzo* decision, the Federal Circuit's decisions have continued to be confusing, contradictory and divided.

It is difficult, as a matter of either law or common sense, to reconcile the contradictions between the Federal Circuit's strict treatment of reviewability in some cases—including this one, which was denied rehearing soon after this Court's *Cuozzo* decision—and its permissive treatment of reviewability in other cases—including *In re Magnum Oil Tools International, Ltd.*, 829 F.3d 1364, 1381 (Fed. Cir. 2016), which issued just two weeks after rehearing in the present case was denied. This inconsistent guidance creates enormous uncertainty for patent owners.

For example, in *Magnum Oil*, the issue was the adequacy of the IPR petition to support the invalidation of the claims. The Federal Circuit in *Magnum Oil* found that issue judicially reviewable under *Cuozzo* and the AIA, and found the petition inadequate to support the PTAB's obviousness ground of unpatentability, because the petition had

failed to discuss in more than “conclusory” fashion the motivation to combine the references used to invalidate. 829 F.3d at 1380. In contrast, in this case the petition did not discuss the motivation to combine the references used to invalidate *at all*—unsurprisingly, because the petition in this case did not even raise this obviousness ground—yet the Federal Circuit deemed the PTAB’s decision unreviewable. App 7a.

In *Magnum Oil*, concerns about judicial reviewability of the petition’s adequacy were dismissed with the statement that “[w]e have jurisdiction to decide the merits of a final written decision even though it is decided initially by the Board at the decision to institute stage.” 829 F.3d at 1374 (internal quotation marks omitted). In contrast, in this case the Federal Circuit claimed to be unable to even reach the adequacy of the petition due to the non-appealability of institution decisions—even though the PTAB expressly revisited and re-decided the question in its final written decision. App 6a-7a.

In *Magnum Oil*, the Federal Circuit rejected the PTO’s arguments that “the Board is free to adopt arguments on behalf of petitioners that could have been, but were not, raised by the petitioner during an IPR” and that the PTAB’s action should be upheld because some other, less conclusory petition could hypothetically have been filed by someone else. 829 F.3d at 1380. In contrast, in this case the Federal Circuit relied on just such reasoning to support its

holding of non-appealability. App. 7a (holding that “a challenge based on a defect in the initiation that could have been cured by a proper pleading is not reviewable”), 8a (“[T]he statute does not limit the Board’s authority at the final decision stage to grounds alleged in the CBM petitions.”).

SightSound’s petition provides an opportunity to clarify what institution decisions are judicially reviewable under the rubric of preventing acts in excess of the agency’s authority. This decision may affect literally thousands of cases. The popularity of AIA proceedings, their breakneck timeframe, *see Cuozzo*, 136 S. Ct. at 2154, and the fact that only one court of appeals has jurisdiction all counsel in favor of review.

## CONCLUSION

*Amicus* respectfully submits that the petition should be granted.

Respectfully submitted,

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