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Supreme Court Maintains Status Quo on Broadest Reasonable Claim Interpretation Test and Non-Appealability of Institution Decisions



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On June 20, 2016, the U.S. Supreme Court issued its opinion in *Cuozzo Speed Technologies LLC v. Lee*, No. 15-446¹, an appeal of an institution and cancellation decision in the first-ever petition for *inter partes* review ("IPR").

The Court, with Justice Breyer writing for the majority, retained the status quo in two key areas by holding that:

1. Cuozzo's effort to appeal the Patent Trial and Appeal Board's ("PTAB") decision to institute IPR was barred by 35 U.S.C. § 314(d); and
2. The PTAB can use the broadest reasonable interpretation ("BRI") claim construction standard to review patents in IPRs, instead of the narrower *Phillips* standard used in district courts.

The Court was unanimous as to the BRI claim construction standard. However, Justices Alito and Sotomayor dissented from the "no-appeal" ruling – they would have interpreted the statute as precluding interlocutory appeals while still allowing limited review of the institution decision in an appeal of the PTAB's final decision on the merits.

The Road to the Supreme Court

In 2012, after being sued in district court for patent infringement by Cuozzo, defendant Garmin sought IPR of all 20 claims of a speedometer patent held by Cuozzo. The petition asserted, among other things, a ground of obviousness for claim 17 in light of three prior art patents.² In its decision to institute IPR, the PTAB decided to review claim 17 based on the obviousness ground, as well as claims 10 and 14 based on the same ground. The PTAB acknowledged that the petition did not expressly challenge claims 10 and 14 on that obviousness ground, but determined those claims to be "implicitly" challenged because they were logically linked to claim 17.³ The PTAB concluded that the claims were obvious in light of prior art, denied Cuozzo's motion to amend the claims, and canceled all three claims.⁴

Cuozzo appealed to the Federal Circuit, arguing that the PTAB improperly instituted IPR for claims 10 and 14 because the PTAB's finding of an implicit challenge did not meet the statutory requirement of 35 U.S.C. § 312(a)(3) that the IPR petition "set forth the grounds for challenge 'with particularity.'"⁵ Cuozzo further argued that the PTAB improperly applied the BRI standard under 37 CFR § 42.100(b) to interpret the claims rather than the standard courts use, which gives claims their "ordinary meaning . . . as understood by a person of skill in the art."⁶

In February 2015, the Federal Circuit rejected both arguments.⁷ It reasoned that 35 U.S.C. § 314(d) made the PTAB's decision to institute IPR "nonappealable," and concluded that the PTAB's regulation was a reasonable exercise of the agency's rulemaking authority.⁸ Five months later, a 6-to-5 divided panel denied Cuozzo's petition for rehearing *en banc*.⁹

The Supreme Court Decision

In its petition for a writ of *certiorari*, filed in October 2015, Cuozzo raised two issues: (1) whether the Federal Circuit erred in holding that, even if the PTAB exceeds its statutory authority in

instituting an IPR proceeding, the PTAB's decision to institute an IPR is judicially unreviewable; and (2) whether the Federal Circuit erred in holding that, in IPR proceedings, the PTAB may construe claims according to the BRI rather than the plain and ordinary meaning.¹⁰

Non-appealability. On the appealability issue, the Court began with the explicit text of 35 U.S.C. § 314(d) of the America Invents Act ("AIA"), which provides that the PTAB's decision "whether to institute an *inter partes* review . . . shall be *final and non-appealable*."¹¹ The Court found the provision was plain on its face, and indicated that Cuozzo's contention that the PTAB unlawfully initiated review was not appealable.¹² The Court held that construing § 314(d) to permit judicial review of the PTAB's decision to institute would undercut the congressional objective of giving the agency power to revisit and revise earlier patent grants.¹³ Furthermore, the Court held that reading § 314(d) as limited to interlocutory appeals would render the provision largely superfluous in light of the Administrative Procedure Act ("APA").¹⁴ The Court analogized the PTAB's institution decision to that of a grand jury – which is also unreviewable: "[t]he grand jury gets to say— without any review, oversight, or second-guessing— whether probable cause exists to think that a person committed a crime."¹⁵

While recognizing the strong presumption in favor of judicial review when interpreting statutes that may limit review, the Court noted that this presumption may be overcome by clear and convincing indications that Congress intended to bar review.¹⁶ The Court determined that, here, the "No Appeal" provision of the statute, the overall statutory scheme, the role of the APA, prior interpretations of similar patent statutes, and Congress's purpose in crafting IPRs "all point in favor of precluding review of the Patent Office's institution decisions."¹⁷

Finally, the Court emphasized that its ruling applies only where the grounds for attacking the decision to institute consist of questions that are "closely tied" to the application of the statutes related to the PTAB's decision to initiate IPR.¹⁸ "This means that we need not, and do not, decide the precise effect of § 314(d) on appeals that implicate constitutional questions, that depend on other less closely related statutes, or that present other questions of interpretation that reach, in terms of scope and impact, well beyond 'this section.'"¹⁹ The Court made clear that its decision does "not categorically preclude review of a final decision" when a petition raises a due process problem or when an agency acts outside its statutory limits.²⁰ Such "shenanigans," the Court held, may be properly reviewable in the context of § 319 and under the APA.²¹

BRI claim construction. On the claim construction standard issue, the Court unanimously held that the PTAB's BRI regulation is a reasonable exercise of the rulemaking authority granted to the PTAB by statute.²² Applying the Court's decision in *Chevron*, the Court found that the AIA statute leaves a "gap" in that there is "no statutory provision unambiguously" directing the agency to use "a particular claim construction standard."²³ The Court further held that the statute grants the Patent Office the authority to address the "gap" by creating regulations "governing [IPRs]," and that this authority did not limit the Patent Office in its enactment of only "procedural rules."²⁴ Its authority under the AIA statute is broader and includes enacting rules that are reasonable in light of the statutory text, including the BRI rule.²⁵

Cuozzo had argued that IPRs were trial-like procedures designed by Congress as a "surrogate for court proceedings," supporting the application of the ordinary meaning standard applied in courts.²⁶ The Court, however, rejected that analogy, finding that such an argument ignores that IPRs are less like judicial proceedings and more like specialized agency proceedings (a "hybrid proceeding").²⁷ The purpose of an IPR is not only to resolve patent-related disputes among parties, but also to protect the public's "paramount interest in seeing that patent monopolies . . . are kept within their legitimate scope."²⁸

In finding the BRI reasonable, the Court considered the public-interest and ruled that BRI assists in providing stronger patent scope boundaries.²⁹ Further, the Court reasoned that the BRI standard helps ensure precision in drafting claims and prevents a patent from tying up too much knowledge, which, in turn, helps members of the public draw useful information

from the disclosed invention and understand the lawful limits of the claim.³⁰ In addition, the Court mentioned that “the Patent Office has used this standard for more than 100 years” and applied it in proceedings which, as here, resemble district court litigation.³¹

Notably, the Court rejected Cuozzo's argument that the ability to amend in IPR is illusory in light of the tiny fraction of motions to amend that have previously been granted in IPR proceedings. The Court noted that “[t]o the extent Cuozzo's statistical argument takes aim at the manner in which the Patent Office has exercised its authority, that question is not before us.”³² The Court also dismissed Cuozzo's argument that inconsistent standards between the PTAB and district courts lead to confusion, stating that “we cannot find unreasonable the Patent Office's decision to prefer a degree of inconsistency in the standards used between the courts and the agency, rather than among agency proceedings.”³³

Dissent

Justice Alito, along with Justice Sotomayor, joined the majority opinion as to the applicability of the BRI standard to IPRs, but dissented on the “no appeal” question. The dissenting opinion offered by Justice Alito focused on the strong presumption favoring judicial review of administrative action and suggested that the statute prevents only interlocutory appeals.³⁵ Justice Alito stated that the majority gave “short shrift” to this presumption by rejecting this common sense interpretation of the statute in view of the Court's precedent. Justice Alito concluded his dissent by taking the majority “at its word that today's opinion will not permit the Patent Office ‘to act outside its statutory limits,’” but pointed out that it “remains a mystery” as to how to determine which “statutory limits” should be enforced and which should not.³⁶

What to Watch for After Cuozzo

The *Cuozzo* decision left several questions unanswered and, as a result, may not have a significant impact on several pending cases with related issues. First, the Court stated that “questions of interpretation that reach, in terms of scope and impact, **well beyond** [35 U.S.C. §§ 314 or 324]” (i.e. the post issuance review proceeding statutory provisions) would be open to review on appeal to the Federal Circuit under § 706 of the APA.³⁷ As such, *Cuozzo* does not appear to preclude the appeal of the Federal Circuit's decision in *Versata*³⁸, thus permitting review of questions on Covered Business Method patent eligibility under § 18 of the AIA. Indeed, neither the majority, nor the concurring or dissenting opinions make any mention of *Versata* for which a petition for *certiorari* is currently pending. Second, the Court made clear that reviewability of proceedings with constitutional or due process issues remain reviewable.³⁹ Thus, *Cuozzo* does not appear to have impacted two other pending cases - *Cooper v. Lee*⁴⁰ and *MCM v. HP*⁴¹ - both of which challenge the IPR system on constitutional grounds.

Next, regarding the Court's unanimous decision affirming the Patent Office's use of BRI, *Cuozzo* will have little-to-no impact on pending or future IPRs. Litigants will continue to deal with the differing claim construction standards between the PTAB and the district court.

Finally, Justice Thomas's concurrence sends a reminder to the patent community that deference and APA issues are increasingly spotlighted during Federal Circuit appeals over PTAB decisions.⁴² Justice Thomas reiterated his view that *Chevron* deference standard should be revisited, but noted that the Court “avoids [] constitutional concerns today” because the Court effectively addressed the issue in conformance with the arbitrary and capricious standard of APA review.⁴³

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¹*Cuozzo Speed Technologies, LLC v. Lee*, 579 U. S. ____, No. 15-446 (June 20, 2016).

²*Id.* at 5-6.

³*Id.*

⁴*Id.* at 6.

⁵*Id.* at 6-7, 12.

⁶*Id.* at 6-7, 12 (citing *Phillips v. AWH Corp.*, 415 F. 3d 1303, 1314).

⁷*Id.* at 7 (note that the February 2015 opinion, 778 F. 3d 1271, was withdrawn and superseded on rehearing by a new opinion, 793 F.3d 1268, in July 2015).

⁸*Id.*; see *In re Cuozzo Speed Technologies, LLC*, 793 F. 3d 1268, 1273, 1278-1279 (Fed. Cir. 2015) (internal quotation marks omitted); see also § 314(a)(4).

⁹*Id.*; *In re Cuozzo*, 793 F. 3d at 1298.

¹⁰Petition for Writ of Certiorari, *Cuozzo*, 579 U. S. ____ (No. 15-446), Dkt No. 63 (June 6, 2016).

¹¹*Cuozzo*, 579 U.S. at 4, 7, and 10.

¹²*Id.* at 11-12.

¹³*Id.* at 8.

¹⁴*Id.* at 9; see 5 U. S. C. § 704.

¹⁵*Cuozzo*, at 9-10, n. 7 (internal quotation omitted).

¹⁶*Id.* at 10, 15.

¹⁷*Id.* at 11.

¹⁸*Id.*

¹⁹*Id.*

²⁰*Id.*

²¹*Id.* at 11-12.

²²*Id.* at 17.

²³*Id.* at 13, 17.

²⁴*Id.* at 13.

²⁵*Id.* at 13-14.

²⁶*Id.* at 14-15 (citing Brief for Petitioner at 28).

²⁷*Id.* at 15-16.

²⁸*Id.* at 16 (internal citations omitted).

²⁹*Id.* at 17-18.

³⁰*Id.* at 17; see § 112(a).

³¹*Id.*

³²*Id.* at 19.

³³*Id.* at 20.

³⁴*Cuozzo*, 6-8 (Alito, J., dissenting) (citing 5 U.S.C. § 704).

³⁵*Id.*, 6 (Alito, J., dissenting).

³⁶*Cuozzo*, 13-14 (Alito, J., dissenting).

³⁷*Id.* at 11-12, 19 (emphases added).

³⁸*Versata Development Group, Inc. v. SAP America, Inc., SAP AG*, No. 2014-1194 (Fed. Cir. July 9, 2015).

³⁹*Cuozzo*, 579 U.S. at 11-12.

⁴⁰Petition for Writ of Certiorari, *J. Carl Cooper & Echarge Licensing LLC v. Michelle K. Lee & USPTO*, Dkt No. 11 (No. 15-955) (Jan. 21, 2016).

⁴¹Petition for Writ of Certiorari, *MCM Portfolio LLC v. Hewlett-Packard Co., Michelle K. Lee & USPTO*, Dkt No. 11 (No. 15-1330) (Apr. 29, 2016).

⁴²*Cuozzo*, 1-2 (Thomas, J., concurring).

⁴³*Id.* at 2 (Thomas, J., concurring).



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