

Supreme Court Confirms Broadest Reasonable Interpretation Allowed in Inter Partes Review and Limits Review of Institution Decisions

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On June 20, 2016, the Supreme Court decided *Cuozzo Speed Technologies, LLC v. Lee*.¹ The case stems from an inter partes review (IPR) proceeding in front of the Patent Trial and Appeal Board (PTAB). The decision,² which was the first IPR decision on the merits, invalidated several claims of a patent owned by Cuozzo, which then appealed the decision to the Court of Appeals for the Federal Circuit, and following the Federal Circuit affirmance decision,³ to the Supreme Court. A majority of the Court affirmed the Federal Circuit in an opinion written by Justice Breyer. The Court held that the U.S. Patent and Trademark Office (USPTO) has rulemaking authority to adopt a standard for claim interpretation in IPR proceedings. The Court also held that the USPTO's adoption of the broadest reasonable interpretation (BRI) standard for IPR proceedings is a reasonable exercise of the rulemaking authority that Congress delegated to the USPTO. The Court further held that the institution decision in the *Cuozzo* IPR was not reviewable. Justices Alito and Sotomayor concurred in part and dissented in part, and Justice Thomas filed a concurring opinion. This article explores the *Cuozzo* decision and its impact on future IPRs and district court infringement actions.

What Is IPR?

Congress created IPR proceedings,⁴ with the passage of the America Invents Act (AIA), to allow third parties to challenge the validity of issued patents based on prior art patents and printed publications. Starting on September 16, 2012, IPR proceedings superseded inter partes reexamination proceedings.⁵ An IPR differs from an inter partes reexamination proceeding in four principal ways: (1) a three-judge panel of the PTAB presides over an IPR, whereas a patent examiner handled an inter partes reexamination; (2) discovery, including depositions of declarant experts, is permitted in an IPR, but was not permitted in inter partes reexamination; (3) an IPR has statutory deadlines, including a final written decision by the PTAB within 12 months of its decision to institute trial on an IPR petition, whereas there

were no similar statutory deadlines in inter partes reexamination, which could take years to conclude; and (4) the PTAB rarely grants a motion to amend claims in an IPR, whereas a patent owner could readily amend and add claims in inter partes reexamination.

In most but not all cases, IPR proceedings are instituted by an accused patent infringer in response to litigation. The accused infringer can challenge the asserted patent in IPR proceedings, which are “a quicker and cheaper substitute for litigation.”⁶ Frequently, district courts grant accused infringers’ motions to stay litigation pending IPR proceedings. Over the past few years, the PTAB has invalidated a large percentage of claims that have been reviewed, and thus IPR has become a very popular avenue for accused infringers.

One possible reason that the PTAB is invalidating such a large percentage of claims reviewed in IPR is that the PTAB uses a different standard than the district courts when construing claims.⁷ In an IPR, the PTAB uses the BRI standard, which is the standard used by the USPTO during examination of a patent. District courts, when construing claims in litigation, use the standard set out by the Federal Circuit in *Phillips*, which is known as the plain and ordinary meaning standard.⁸ The International Trade Commission (ITC) also uses the *Phillips* standard when construing claims.⁹

What Was at Issue?

Cuozzo presented two issues to the Supreme Court: (1) whether the BRI standard should be used in IPR proceedings; and (2) whether the PTAB’s decision to institute an IPR is barred from appeal, or whether it should be subject to appellate review. The Court agreed unanimously that the USPTO could use BRI as the standard in IPR proceedings. In regard to the second question, a majority of the justices agreed that the PTAB’s decision to institute IPR in this case was not reviewable on appeal. Justices Alito and Sotomayor dissented in regard to whether the institution decision was reviewable, arguing that the institution decision in *Cuozzo*, although unlikely to be overturned, should be reviewable.

Is IPR a Mini-Litigation or Continued Examination?

The Court examined the USPTO decision to use BRI in IPR proceedings under the framework of *Chevron*.¹⁰ *Chevron* describes a two-part test for determining whether an agency interpretation of a statute receives deference.¹¹ The first step of *Chevron* involves determining whether the intent of Congress is clear, or whether there is an ambiguity to resolve in the statute in question.¹² If there is some ambiguity, then under the second step of *Chevron*, the court determines whether the agency’s interpretation is reasonable.¹³ The Court found that under the first step of the *Chevron* framework, the AIA “contains such a gap: No statutory provision unambiguously directs the agency to use one standard or the other.”¹⁴

Cuozzo argued that the intent of Congress was clearly to create an adjudicatory proceeding, different from the prior reexamination proceedings, and thus there is no ambiguity in the statute because the only appropriate standard would be the one used by district courts.¹⁵ The justices grappled with whether IPR proceedings are an extension of patent examination or more analogous to litigation. IPR shares certain aspects with both examination and litigation.

Like an applicant in an examination or a patent owner in a reexamination of an issued patent, a patent owner can present claim amendments once an IPR has been instituted. Additionally, unlike litigation, there is no presumption of validity of the patent in question during IPR, and the party that initiates the proceeding “need not have a concrete stake in the outcome; indeed, they may lack constitutional standing.”¹⁶ Further, the USPTO can continue an IPR even after the parties settle, and the USPTO can, as it did in this case, defend the PTAB’s decision in a judicial proceeding.

On the other hand, like litigation, IPR is adversarial and generally includes discovery, briefs, and oral argument in front of the PTAB. Unlike examination, claim amendments are not entered as a matter of right during IPR, and there is only a limited opportunity to amend. Additionally, an IPR decision “to cancel a patent normally has the same effect as a district court’s determination of a patent’s invalidity.”¹⁷

The Court examined the similarities and differences between IPR and district court litigation, noting that although there are characteristics “which make these agency proceedings similar to court proceedings, . . . in other significant respects, inter partes review is less like a judicial proceeding and more like a specialized agency proceeding.”¹⁸ Ultimately, the Court found that, because of the differences between district court litigation and IPR, “the purpose of the proceeding [IPR] is not quite the same as the purpose of district court litigation.”¹⁹ Rather, the purpose of IPR is to “reexamine an earlier agency decision.”²⁰ Concluding their examination under the first step of *Chevron*, the Court stated that “whether we look at statutory language alone, or that language in context of the statute’s purpose, we find an express delegation of rulemaking authority.”²¹

Is BRI Reasonable?

The Court then turned to the second step of *Chevron*, concluding that “the regulation represents a reasonable exercise of the rulemaking authority that Congress delegated to the [USPTO].”²² Initially, the Court noted that “construing a patent claim according to its broadest reasonable construction helps to protect the public,” and that “past practice supports the [USPTO’s] regulation.”²³ The Court also remarked that § 316 of the AIA²⁴ explicitly authorizes the USPTO to “engage in the process of rulemaking.”²⁵

Cuozzo argued that, unlike during examination where applicants can amend claims freely, patent owners have a limited opportunity to amend claims during IPR proceedings, and the USPTO does not frequently allow an amendment to be entered.²⁶ Thus, according to Cuozzo, the use of BRI during IPR is unfair to the patent holder. The Court dismissed this argument, stating that the limited opportunity to amend is “not unfair to the patent holder in any obvious way,” and explained that whether the USPTO is properly treating submitted amendments was not at issue in this appeal.²⁷

Cuozzo also argued that using plain and ordinary meaning during district court litigation but BRI during IPR would lead to inconsistent outcomes. Chief Justice Roberts remarked, during oral argument, “it’s a very extraordinary animal in legal culture to have two different proceedings addressing the same question that lead to different results.”²⁸ But, in the opinion, the Court stated that “inter partes review

imposes a different burden of proof on the challenger” than district court litigation, and that “[t]hese different evidentiary burdens mean that the possibility of inconsistent results is inherent to Congress’ regulatory design.”²⁹

Further, the Court described how the USPTO uses BRI throughout examination and in most other proceedings. The USPTO argued that its decision to use BRI during IPR proceedings was reasonable and “precisely the sort of expert judgment that warrants judicial deference.”³⁰ The Court agreed with the USPTO, stating that “we cannot find unreasonable the [USPTO’s] decision to prefer a degree of inconsistency in the standards used between the courts and the agency, rather than among agency proceedings.”³¹

Thomas Concurrence

Justice Thomas concurred with the Court’s opinion, and pointed out his belief that the framework created in *Chevron* should be revisited by the Court. Justice Thomas argued that ambiguity in a statutory term should not, by default, be considered an implicit delegation of power to an administrative agency. But, because the AIA “contains an express and clear conferral of authority to the [USPTO] to promulgate rules governing its own proceedings,” here “[t]he Court avoids those constitutional concerns.”³²

Reviewability of Institution Decision

In the petition seeking IPR of Cuozzo’s claims, Garmin argued that claim 17 was invalid based on three prior art patents. Claims 10 and 14 were also challenged, but based on a different combination of patents from claim 17. In its institution decision, the PTAB decided to review claims 10, 14, and 17 based on the three patents asserted against claim 17. Although Garmin had never *explicitly* challenged claims 10 and 14 using those three patents, the PTAB reasoned that Garmin *implicitly* challenged claims 10 and 14 under the same basis as the challenge to claim 17.

Cuozzo argued that the institution decision was improper because the AIA requires a petition to set forth grounds for challenge “with particularity.”³³ Because claims 10 and 14 were not *explicitly* challenged using the three prior art patents, Cuozzo argued that the PTAB institution decision was improper. Cuozzo further argued that the decision of whether or not to institute an IPR is particularly important because once an IPR is instituted, the PTAB “invalidates more than four out of every five patent claims that reach a final decision.”³⁴

Cuozzo, however, faced a statute. In enacting the AIA, Congress limited the reviewability of the PTAB’s decision to institute an IPR. Section 314 states: “The determination by the Director whether to institute an inter partes review under this section shall be *final and nonappealable*.”³⁵ Cuozzo argued that once a final decision has been rendered, “nothing bars a party from arguing that the [PTAB’s] final decision must be set aside because the proceeding was instituted in violation of the statutory restrictions.”³⁶ The government’s position was that there is no need to relitigate “threshold questions that do not bear on the proper scope of the patentee’s exclusive rights.”³⁷

A majority of the Court agreed with the government, finding that the institution decision in the *Cuozzo* IPR was not reviewable. In the opinion, the Court stated that holding the institution decision reviewable “would undercut one important congressional objective, namely, giving the [USPTO] significant power to revisit and revise earlier patent grants.”³⁸ The Court considered the institution decision under the framework of the Administrative Procedure Act (APA).³⁹ The Court held that under the APA only final agency decisions are reviewable, and that a decision to institute an IPR is “preliminary,” not “final.”⁴⁰

After considering § 314 of the AIA, the APA, prior interpretation of similar patent statutes, and Congress’s apparent intent in enacting laws for IPR proceedings, the Court found that each of these factors “point in favor of precluding review of the [USPTO’s] institution decisions.”⁴¹ The Court limited the holding, though, to instances “where the grounds for attacking the decision to institute inter partes review consist of questions that are closely tied to the application and interpretation of statutes related to the [USPTO’s] decision to initiate inter partes review.”⁴² The Court did not decide the effects of § 314 “on appeals that implicate constitutional questions.”⁴³ For example, if a petition fails to give sufficient notice or if the agency acts outside of the statutory limits of the AIA, then the institution decision may still be reviewable.⁴⁴ The Court held that in this case, the challenge to the institution decision based on the argument that Garmin’s petition was not pleaded with particularity was barred by § 314 of the AIA.

Alito Dissent

Justices Alito and Sotomayor dissented from the Court’s holding regarding the reviewability of an IPR institution decision. The two justices argued that, because of the presumption in favor of judicial review, § 314 only bars an *appeal* from the institution itself, i.e., an interlocutory appeal. Further, they argued that § 314 states that an institution decision is “not appealable,” but does not state that the decision is not subject to *any* review. Thus, Justices Alito and Sotomayor argued that “nonappealable” should be interpreted to mean “not *immediately* or *independently* appealable, but . . . subject to review at a later point.”⁴⁵ In their dissent, the two justices argued that review “of institution-related issues in an appeal from the [USPTO’s] final written decision at the end of the proceeding” should not be barred.⁴⁶

Justice Alito’s opinion also discussed the potential consequences on other patent review mechanisms created by the AIA, such as post-grant review (PGR) and covered business method (CBM) proceedings. Justice Alito noted that PGR and CBM review, which are in some ways broader than IPR, are subject to similar institution decision review restrictions as those in § 314.⁴⁷

Effects of BRI

A few months before the Supreme Court’s *Cuozzo* decision, the Federal Circuit discussed the effect of using BRI instead of plain and ordinary meaning while reviewing an IPR claim construction in *PPC Broadband*.⁴⁸ There, the Federal Circuit reviewed a PTAB conclusion that all challenged claims of three patents were invalid under BRI. The Federal Circuit stated that there was a significant difference between BRI and *Phillips* constructions. The court held that, under *Phillips*, the correct construction of the term “continuity member” required, as the patent owner argued, “a continuous or consistent connection.”⁴⁹ The Federal Circuit noted, however, that BRI is applied in IPRs and that the PTAB’s construction was not unreasonable. The court concluded that the PTAB’s construction—“that the continuity

member need only make contact with the coupler/nut and the post to establish an electrical connection there,” without requiring consistent or continuous contact—is the broadest reasonable construction.⁵⁰ The court expressly stated the difference was outcome determinative:

This case hinges on the claim construction standard applied—a scenario likely to arise with frequency. And in this case, the claim construction standard is outcome determinative. . . . [C]laim construction in IPRs is not governed by *Phillips*. Under *Cuozzo*, claims are given their broadest reasonable interpretation consistent with the specification, not necessarily the correct construction under the framework laid out in *Phillips*.⁵¹

On the basis of the BRI construction of the challenged claims, all of which would have survived under a *Phillips* construction, the court affirmed the PTAB determination in the IPR that certain claims were unpatentable.⁵²

Using PTAB Claim Construction in District Court

Although the Court affirmed the BRI standard for claim construction for IPRs at the PTAB in *Cuozzo*, it is not yet clear how or whether district courts should consider previously decided PTAB claim constructions when performing their own *Markman* hearings/claim constructions. As discussed above, district courts construe claims using the *Phillips* plain and ordinary meaning standard, which is intended to be narrower than the PTAB’s BRI standard.

During oral argument, Chief Justice Roberts considered this issue, asking “is the district court free to disagree with the [US]PTO reading of the patent?”⁵³ Chief Justice Roberts further questioned how having two separate claim construction inquiries would serve to simplify the patent system. In one hypothetical, Chief Justice Roberts indicated that district courts might not be “bound by this broadest-possible reading.”⁵⁴ Although discussed during oral argument, the Court provided no guidance in *Cuozzo* as to how district courts should consider PTAB claim constructions.

District courts that have considered PTAB claim constructions have struggled in deciding whether to consider the constructions as intrinsic or extrinsic evidence. Intrinsic evidence, such as the patent itself or prosecution history, is given greater weight when construing claims than extrinsic evidence, such as dictionaries or treatises.⁵⁵ Some district courts have deemed PTAB claim constructions under BRI in IPRs as further intrinsic evidence in support of a claim construction under *Phillips*.⁵⁶ Other district courts have simply decided not to give any weight to PTAB claim constructions.⁵⁷ An argument can be made that when claims are amended in an IPR, the IPR becomes part of the prosecution history, and that at least the record *evidence* in that IPR should be considered as intrinsic evidence when construing claims under *Phillips*.⁵⁸

Consideration of Institution Decisions on Appeal

Although the Court barred review of most IPR institution decisions, the Court did not decide whether institution decisions could be reviewed based on constitutional considerations. *Magnum Oil Tools*,⁵⁹ an appeal from an IPR final written decision that the Federal Circuit decided after the Supreme Court’s *Cuozzo* decision, provides an alternative example of how institution decisions may be considered on appeal. In *Magnum Oil Tools*, the patent holder, Magnum, argued that the petitioner had not satisfied

its burden of proof during IPR proceedings, and that “the Board improperly shifted the burden to Magnum to prove nonobviousness.”⁶⁰ The Federal Circuit agreed that the PTAB had improperly shifted the burden of persuasion to the patent holder.

In its opinion, the Federal Circuit cited a portion of the PTAB’s institution decision as an “example of the Board’s improper shifting of the burden to Magnum.”⁶¹ After *Cuozzo*, it would likely have been improper for the Federal Circuit to review the institution decision itself. But, the Federal Circuit used the institution decision as *evidence* that improper burden shifting occurred during the IPR. *Magnum Oil Tools* provides a potential avenue for institution decisions to be considered on appeal, despite the limits put in place by *Cuozzo*.

Phillips Construction Available in Some IPRs

When a patent expires during IPR, its claims are construed according to the *Phillips* standard.⁶² In a rule change that became effective on May 2, 2016, a *Phillips* claim construction, i.e., plain and ordinary meaning, may also be used in IPR for patents that have not yet expired but are near the end of their term.⁶³ Within 30 days of filing the petition for IPR, either party may request a “district court-type claim construction” if the patent challenged in the IPR will expire within 18 months of the filing date of the petition.⁶⁴

Future Considerations

After *Cuozzo*, it appears that BRI will remain the standard for claim construction during IPR. But, the relationship between IPR and district court litigation remains unclear in some respects. More guidance on this issue can be expected from the Federal Circuit, particularly with regard to how district courts should consider PTAB claim constructions. The reviewability of institution decisions has certainly been curtailed following *Cuozzo*. Barring exceptional circumstances, the PTAB is likely to be fairly insulated from review of their decisions on whether to institute an IPR.

Endnotes

1. 136 S. Ct. 2131 (2016).
2. *Garmin Int’l, Inc. v. Cuozzo Speed Techs. LLC*, No. IPR2012-00001, Paper No. 26 (P.T.A.B. Mar. 5, 2013).
3. *In re Cuozzo Speed Techs., LLC*, 793 F.3d 1268 (Fed. Cir. 2015).
4. Under the AIA, Congress also created post-grant review (PGR) proceedings and covered business method (CBM) proceedings.
5. Ex parte reexamination, wherein a third party files a request but has no ability to provide further input to the examiner handling the request, is still available after the AIA became effective.
6. Brief for the Petitioner at 17, *Cuozzo*, 136 S. Ct. 2131 (2016) (No. 15-446).
7. Another reason is the lower burden of proof—an IPR petition only needs to prove unpatentability of challenged claims by a preponderance of the evidence (35 U.S.C. § 316(e)), whereas in a lawsuit, each patent claim is presumed valid (35 U.S.C. § 282) and the accused infringer must prove invalidity by clear and convincing evidence.
8. *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005).
9. *See, e.g., Alloc, Inc. v. Int’l Trade Comm’n*, 342 F.3d 1361, 1368 (Fed. Cir. 2003).
10. *Chevron U.S.A. Inc. v. Natural Res. Def. Council, Inc.*, 467 U.S. 837 (1984).

11. *Id.* at 842–43.
12. *Id.*
13. *Id.*
14. *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2142 (2016).
15. Brief for the Petitioner, *supra* note 6, at 18–35.
16. *Cuozzo*, 136 S. Ct. at 2143–44.
17. *Id.* at 2143.
18. *Id.*
19. *Id.* at 2144.
20. *Id.*
21. *Id.*
22. *Id.*
23. *Id.* at 2144–45.
24. 35 U.S.C. § 316(a)(4).
25. *Cuozzo*, 136 S. Ct. at 2142 (citing *United States v. Mead Corp.*, 533 U.S. 218, 229 (2001)).
26. Brief for the Petitioner, *supra* note 6, at 29–31.
27. *Cuozzo*, 136 S. Ct. at 2145–46.
28. Transcript of Oral Argument at 32, *Cuozzo*, 136 S. Ct. 2131 (2016) (No. 15-446).
29. *Cuozzo*, 136 S. Ct. at 2146.
30. Brief for the Respondent in Opposition at 9–10, 14, *Cuozzo*, 136 S. Ct. 2131 (2016) (No. 15-446).
31. *Cuozzo*, 136 S. Ct. at 2146.
32. *Id.* at 2148 (Thomas, J., concurring).
33. 35 U.S.C. § 312.
34. Brief for the Petitioner, *supra* note 6, at 46 (citing *Patent Trial and Appeal Board Statistics*, USPTO 12 (Dec. 31, 2015), <https://www.uspto.gov/sites/default/files/documents/2015-12-31%20PTAB.pdf>).
35. 35 U.S.C. § 314(d) (emphasis added).
36. Brief for the Petitioner, *supra* note 6, at 49.
37. Brief for the Respondent in Opposition, *supra* note 30, at 21.
38. *Cuozzo Speed Techs., LLC v. Lee*, 136 S. Ct. 2131, 2139–40 (2016).
39. *Id.* at 2140.
40. *Id.*
41. *Id.* at 2141.
42. *Id.*
43. *Id.*
44. *Id.* at 2141–42.
45. *Id.* at 2151 (Alito, J., concurring in part and dissenting in part).
46. *Id.*
47. *Id.* at 2154.
48. *PPC Broadband, Inc. v. Corning Optical Commc'ns RF, LLC*, 815 F.3d 734 (Fed. Cir. 2016).
49. *Id.* at 741.
50. *Id.* at 742–43.
51. *Id.* at 741–42 (citing *In re Cuozzo Speed Techs., LLC*, 793 F.3d 1268, 1279 (Fed. Cir. 2015)).
52. *Id.* at 747.

53. Transcript of Oral Argument, *supra* note 28, at 39.

54. *Id.* at 43.

55. *Phillips v. AWH Corp.*, 415 F.3d 1303, 1317 (Fed. Cir. 2005).

56. *See, e.g.*, *Fairfield Indus., Inc. v. Wireless Seismic, Inc.*, No. 4:14-CV-2972, 2015 WL 1034275, at *5 (S.D. Tex. Mar. 10, 2015) (“Although the PTAB applies a different construction standard than the district courts do, its claim construction analysis serves as further intrinsic evidence that [the patent owner’s] proposed construction is appropriate.”).

57. *See, e.g.*, *Pragmatus AV, LLC v. Yahoo! Inc.*, No. C-13-1176 EMC, 2014 WL 1922081, at *4 (N.D. Cal. May 13, 2014) (“[T]his Court owes no deference to the PTAB’s claim construction done as part of an inter partes review.”).

58. As of April 25, 2016, the date of oral argument at the Supreme Court in *Cuozzo*, the PTAB had allowed only six out of more than 100 patent owner requests to amend claims in IPRs. Transcript of Oral Argument, *supra* note 28, at 29–30 (“Only about 13 percent of . . . of patentholders in IPRs have actually filed motions to amend. And there have now been six motions to amend that are granted.”). As of the date of this article, none of the claims in these six IPRs have been construed by a district court after a final written IPR decision.

59. *In re Magnum Oil Tools Int’l, Ltd.*, 829 F.3d 1364 (Fed. Cir. 2016).

60. *Id.* at 1377.

61. *Id.* at 1378.

62. *See, e.g.*, *Taiwan Semiconductor Mfg. Co., Ltd. v. DSS Tech. Mgmt., Inc.*, No. IPR2014-01030, Paper No. 28, 2015 WL 7758321, at *2 (P.T.A.B. Nov. 30, 2015).

63. 37 C.F.R. § 42.100(b).

64. *Id.*