



The Significance of *In re Cuozzo* and its Ongoing Spot in the Limelight

When the United States Court of Appeals for the Federal Circuit issued its decision in *In re Cuozzo Speed Technologies* in February 2015—the first decision in an appeal from an *inter partes* review (“IPR”) conducted by the Patent Trial and Appeal Board (the “PTAB”)—both the Patent and Trademark Office (the “PTO”) and patent challengers could call it a success. In addition to confirming the PTAB’s determination on the merits that the claims were unpatentable as obvious, the Federal Circuit ruled on three procedural issues in a manner that aligned with the PTO’s position and largely disfavors patent holders. The court held that: (i) challengers to institution decisions may not appeal institution decisions in the ordinary course of an appeal but instead must meet the stringent standards for mandamus review, thereby largely insulating such decisions from appellate review; (ii) the PTAB was entitled to apply the broadest reasonable interpretation (“BRI”) in construing patent claims; as a result, more prior art will potentially render patent claims unpatentable; and (iii) the PTO was delegated rulemaking by Congress for certain, standard-setting aspects of PTAB proceedings such as using the BRI standard for claim construction, requiring deference to the PTO in the content and application of such rules.

Given the foundational nature of the decision, it is not surprising that *Cuozzo*, the patent holder, has sought *en banc* review. At the time of this publication, *Cuozzo*’s *en banc* petition has not been acted upon, although the court has taken the step of asking the PTO for a response (which the Office recently supplied)—suggesting at least some interest among the judges in potentially reviewing the *Cuozzo* decision. Meanwhile, however, the panel decision continues to control. In light of the significance of the decision, and its potential *en banc* review, this *Commentary* addresses *Cuozzo*’s holdings and the arguments presented in the *en banc* petition.

Statutory Background

We begin with a brief discussion of the America Invents Act of 2011 (the “AIA”), the statutory regime that created the PTAB and IPRs. The AIA established a new framework for challenging the patentability of issued patent claims at the PTO and also created a new entity—the PTAB—for handling those challenges. Among the new procedures are IPR proceedings, set forth in sections 311 to 319 of Title 35. IPR proceedings are handled by a panel of three PTAB judges and include a trial. They replace *inter partes* reexaminations, which were conducted before a single patent examiner and largely on the papers.

The PTAB may not institute an IPR “unless the Director determines that the information presented in the petition” and any response thereto “shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.”¹ The statute (35 U.S.C. § 314(d)) provides that “[t]he determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable.”²

The PTAB has three months to decide whether to institute an IPR, and IPRs generally must be completed within one year of their institution.³ The issues decided in an IPR typically have estoppel effect in district court proceedings, thus limiting the invalidity arguments that the patent challenger (or one in privity with it) may later invoke in district court.⁴ Appeals from PTAB final written decisions may be taken only to the Federal Circuit, making that court the final arbiter of IPRs short of any United States Supreme Court review.⁵

Since enactment of the AIA, the PTO has promulgated various rules and standards governing IPRs. Among them is a rule that claims construed in IPRs shall be given their broadest reasonable interpretation, as opposed to the standard applicable in district court proceedings under *Phillips v. AWH Corp.*⁶ The BRI standard is friendly to patent challengers in IPRs. When a claim is interpreted broadly, it is more likely to run into invalidating prior art.

IPRs have proven very popular. Under the AIA, IPRs could be requested as early as September 16, 2012, and parties began filing requests on that first day. In the three and a half months remaining in 2012, 96 IPR petitions were filed, and the number has steadily grown, to approximately 700 in 2013 and more than double that to 1,500 in 2014.⁷ These numbers have been far greater than expected, and by all accounts, the growth will continue.⁸

Between the sheer number of IPRs instituted and the requirement to conduct the proceedings and issue a decision within one year of institution, appeals from the earliest of the PTAB trials are now routinely reaching the Federal Circuit—and are also reaching a decision. Early appeals have raised a number of challenges regarding the statutory provisions in the AIA as well as the PTO’s newly promulgated rules.

Background of the *Cuozzo* Appeal

One of the earliest IPRs to put the statutory provisions and PTO rules to the test—in fact, one requested the first day available—was *Garmin International v. Cuozzo Speed Technologies*. The case was also the first IPR to reach a decision in the Federal Circuit after a final written decision by the PTAB.

In its petition for *inter partes* review, Garmin, the patent challenger, sought to challenge the patentability of four claims in Cuozzo’s U.S. Patent No. 6,778,074 (the ’074 patent) as anticipated or obvious based on certain combinations of prior art. The PTAB instituted review on only three claims, and for two of the claims the PTAB relied on obviousness rationales that differed from the grounds that Garmin had presented.⁹ After a trial, the PTAB issued a final written decision, holding that all three of the claims were unpatentable as obvious. The PTAB also denied Cuozzo’s motion to amend its claims.

Cuozzo appealed. As an interesting twist, Cuozzo and Garmin settled during the pendency of the appeal, and Garmin withdrew as a party. However, because the PTO had intervened under 35 U.S.C. § 143 to defend the final written decision of obviousness, the appeal proceeded between Cuozzo and the PTO.¹⁰ In a 2–1 decision, the Federal Circuit, applying the recently modified paradigm for appellate review of claim construction determinations set forth by the Supreme Court in *Teva Pharmaceuticals U.S.A., Inc. v. Sandoz, Inc.*,¹¹ found that the PTAB correctly construed the challenged claims, found no issue with the PTAB’s determination that the claims were obvious, and declined to alter the PTAB’s denial of Cuozzo’s motion to amend its claims. The court thus upheld the PTAB’s decision that the three claims were unpatentable. Judge Dyk wrote the majority opinion for himself and Judge Clevenger, and Judge Newman dissented.

Cuozzo’s Big Three

In the process of affirming the PTAB decision on the merits, the court of appeals addressed three preliminary issues that will govern or shed light on future PTAB proceedings and resulting appeals, and two of these issues were the principal basis of disagreement between the majority and dissent. The court’s resolution of these issues is important to PTAB proceedings and appeals. In each instance, the court decided in favor of the PTO.

1. The PTAB's Substantial Freedom in IPR Institution Decisions Under *Cuozzo*. *Cuozzo* challenged the PTAB's decision to institute trial on grounds not presented by Garmin in its petition seeking review. According to *Cuozzo*, PTAB proceedings are meant to be adversarial proceedings in which the PTAB is permitted to make rulings only on issues presented by the parties, and Congress did not intend to allow the PTAB to "gin up" its own grounds for evaluating the patentability of a claim.¹² In response, the PTO argued that institution decisions are wholly unappealable. The PTO further argued that the PTAB's purportedly "ginned up" grounds had been implicitly presented by Garmin. The grounds at issue concerned two claims that depended from broader claims, and Garmin's petition raised the prior art at issue in seeking review of those claims.¹³

On this fundamental jurisdictional question of whether PTAB institution decisions can be appealed, the Federal Circuit answered "no"—mostly. The court explained that it had already held that interlocutory review of an institution decision is barred, even by a mandamus petition.¹⁴ Now confronted with whether an institution decision could be reviewed at the conclusion of the PTAB proceeding, i.e., after a final written decision, the Federal Circuit was almost as strict. It left open the possibility that a party could seek review of an institution decision after a final written decision by seeking mandamus review, but given the strict standard for such review, the review is likely limited as a practical matter.

In reaching its conclusion, the court relied largely on the statutory text regarding appeals from IPR decisions, and in particular on § 314(d). Section 314 governs the institution of *inter partes* review. Section 314(d), entitled "No Appeal," states that "[t]he determination by the Director whether to institute an *inter partes* review under this section shall be final and nonappealable." According to the court, because §§ 319¹⁵ and 141(c)¹⁶ prohibit all interlocutory appeals on their own, § 314(d) must have been intended to do more than prevent interlocutory appeals of institution decisions. The court also pointed out that § 314(d) does not include any qualifier as to its time period of applicability, thus suggesting that Congress intended institution decisions to be nonappealable, even after a final written decision.¹⁷

While the court left open the possibility of review via a mandamus petition, such review is likely reserved for only the most egregious actions by the PTAB, given the stringent standards

for mandamus review. To pursue mandamus relief, the petitioner must satisfy three conditions: (i) the party seeking the writ must have no other adequate means to attain the desired relief, (ii) the requester's right to issuance of the writ is clear and indisputable, and (iii) the issuing court is satisfied that the writ is appropriate under the circumstances. The facts of *Cuozzo* did not reach this strict standard. The panel ruled that, even if *Cuozzo*'s appeal were treated as a mandamus petition, *Cuozzo* failed to come close to meeting the clear-and-indisputable requirement for mandamus relief.¹⁸

In dissent, Judge Newman questioned the prudence of the majority's departure from the "fundamental rule of administrative action, that agency decisions must be reviewable on appeal."¹⁹ In Judge Newman's view, the statute limits interlocutory appeals but should not be read as "heavy-handed foreclosure of all review of anything related to the petition."²⁰

Under the majority's decision permitting only limited review of institution decisions, however, the PTAB has substantial freedom in establishing the grounds on which it grants IPR review, and it is likely to see its institution decision-making authority as effectively immune from challenge.

The court's decision is also favorable to petitioners. If the PTAB is not convinced that the petition has presented convincing arguments, it may nonetheless grant the petition on modified grounds, and its decision to do so will largely be insulated from review. Thus, while patent challengers should not rely on the PTAB to develop arguments for them, they may benefit from any independent analysis of the PTAB at the institution stage.

2. *Cuozzo*'s Approval of the PTO's Petitioner-Friendly BRI Standard for Claim Construction in IPRs. *Cuozzo* also challenged the PTO's decision to apply the BRI standard for claim construction in IPR proceedings. The BRI standard applies in pre-AIA PTO proceedings. *Cuozzo* argued that this standard is inappropriate for IPRs and urged instead the standard that district courts apply under *Phillips*. According to *Cuozzo*, IPRs, like district court proceedings and unlike other PTO proceedings, are adversarial rather than examinational. *Cuozzo* further argued that adoption of the BRI standard constituted substantive rulemaking beyond the PTO's authority.²¹ The PTO countered that the BRI standard is appropriate and defended its authority to establish the claim construction standard for IPRs.²²

Again, the court of appeals agreed with the PTO by affirming use of the BRI standard. Although the court recognized that the AIA “is silent on” the standard for construing claims in an IPR, it held that Congress “implicitly adopted” the BRI standard.²³ Judge Dyk emphasized the century-plus history of the BRI standard at the PTO against which Congress legislated when it enacted the AIA.²⁴ During that time, the BRI standard had been applied in any initial examinations, interferences, reissues, and reexaminations where the patent had not yet expired and its claims could still be amended. As the court explained, the BRI standard accounts for later amendment of a claim, minimizing the need for litigation over those amendments, and IPRs, like its predecessor proceedings, allow for claim amendment.²⁵ Applying the principle that Congress is presumed to be aware of widely known agency practice, the court found “no indication that the AIA was designed to change the claim construction standard that the PTO has applied for more than 100 years.”²⁶

The court was not swayed by Cuozzo’s arguments that the limitation in IPRs to one opportunity to amend claims made IPRs meaningfully different for purposes of claim construction: “Although the opportunity to amend is cabined in the IPR setting, it is thus nonetheless available.”²⁷ The court also rejected Cuozzo’s argument that IPRs were “adversarial,” warranting the claim construction applicable in district court.²⁸ The court briefly pointed to interference proceedings, which use the BRI standard, as “in some sense adjudicatory.”²⁹ The court also returned again to its view that Congress, in enacting the AIA against the backdrop of the BRI standard and failing to set forth a different standard, implicitly adopted the BRI standard.³⁰

The panel, however, did not rest its decision solely on congressional authority for the BRI standard. It continued by holding that, even if Congress did not implicitly adopt the BRI standard in the AIA, the PTO was entitled to establish that standard under its delegation of rulemaking authority in the AIA. Although the Federal Circuit had previously ruled under pre-AIA law that the PTO does not have substantive rulemaking authority,³¹ the court relied on the new provisions in the AIA (in § 316(a)(2)), which directed the PTO to establish regulations “setting forth the standards for the showing of sufficient grounds to institute a review.” The court found that use of the BRI standard fell within this delegation of authority, and that *Chevron* deference to their rulemaking should be applied.³²

In performing a *Chevron* analysis, the court looked to (i) whether Congress had directly spoken to the precise question at issue—an inquiry the court already answered in the negative³³—and (ii) if Congress had not spoken, whether the agency’s interpretation was based on a permissible construction of the ambiguous statutory language at issue. On that point, the court again relied on the long history of applying the BRI standard in other post-grant proceedings such as reexaminations, reissues, and interferences, stating that the policy rationales for use of the BRI standard applied to IPRs as well. The court also noted that the PTO has discretion to consolidate IPRs with other proceedings, “suggest[ing] that a single claim construction standard across proceedings is appropriate.”³⁴ On the merits, the court held that the PTAB properly applied the BRI standard, doing so under the standard of review set forth in *Teva*, and further held that the claims were obvious.

In dissent, Judge Newman viewed the BRI standard for IPRs as contrary to the intent of Congress. Judge Newman described IPRs as fundamentally different from examination-type proceedings where claim amendments can be freely made, and she cited the AIA’s legislative history as an indication of Congress’s desire to “‘convert’ *inter partes* reexamination ‘from an examinational proceeding to an adjudicative proceeding.’”³⁵ Judge Newman viewed this express desire to move to an adjudicative framework, in combination with the very limited ability to amend claims in an IPR, as evidence of congressional intent that IPR proceedings serve as a “surrogate for district court litigation,” thus warranting the claim construction standard used in district courts.³⁶ Judge Newman argued that, “[b]y refusing to apply to *Inter Partes* Review the procedural and substantive law of the district courts, the panel majority defeats the legislative purpose, for the PTO tribunal cannot serve as a surrogate for district court litigation if the PTAB does not apply the same law to the same evidence.”³⁷

But under the majority’s ruling, the court handed the PTO a significant victory that will have ramifications beyond the particular issue of the claim construction standard. The court’s ruling strengthens the PTAB as a critical entity shaping the scope and procedures of IPRs. Under *Chevron*, the PTAB will enjoy substantial deference in crafting and applying IPR rules. Further, the PTAB will enjoy the deferential standard of review of claim construction factual findings that applies under *Teva*.

With respect to petitioners, the BRI standard is likely their biggest win in *Cuozzo*. Patent claims that are borderline obvious will be much more likely to be found unpatentable when their scope is evaluated at the PTAB under the BRI standard, such that it encompasses a larger universe of prior art.

3. The PTAB's Substantial Freedom in Deciding Whether to Grant Leave to Amend. The final preliminary issue addressed by the court was the PTAB's denial of *Cuozzo*'s motion for leave to amend its claims. In denying *Cuozzo*'s motion, the PTAB held that *Cuozzo*'s proposed amendment lacked written description support and would improperly broaden the scope of the claims as construed by the PTAB.³⁸

The court affirmed the PTO's ruling. In doing so, the court held that the same standard for amendment used in reissues and reexaminations applies in IPRs: whether the amended claim "contains within its scope any conceivable apparatus or process which would not have infringed the original patent"; if it does, the amendment is improper.³⁹ Under that standard, the court affirmed the PTAB's denial of amendment on the ground that it would have improperly broadened the original claims.

The narrow ground for amendment favors patent challengers. *Cuozzo* may foretell limited success on motions to amend, either initially or in challenging their denial on appeal. The court's approval of the PTAB's high bar to making claim amendments may give patent owners pause when considering how to extract their issued patent claims from a PTAB challenge. The ruling was also a win for the PTO, having pressed for the amendment standard approved by the court.

***Cuozzo* Going Forward, Maybe in *Cuozzo* Itself**

The *Cuozzo* decision will likely spur even more petitions for IPR proceedings to review patents for patentability. As the statistics show, IPRs were popular from the start, and the *Cuozzo* decision will further cement that route to challenging patents. Although institution decisions will often, if not almost always, be unreviewable, for patent challenges that are instituted, the BRI standard makes it easier to demonstrate unpatentability than the claim construction standard applicable in district court.

The still-nascent nature of IPRs, however, leaves open for further litigation specific applications of *Cuozzo* and other issues attendant to the statutory provisions and the PTO's promulgated rules. With still more Federal Circuit appeals challenging PTAB procedural practice in the pipeline, the coming months will be telling as to whether the PTAB will continue to operate substantially as it sees fit.

Indeed, *Cuozzo*, itself a divided decision, may yet be reviewed *en banc* or at the Supreme Court.⁴⁰ *Cuozzo* requested rehearing *en banc* in March 2015, and the next day the court invited a response from the PTO, which was filed on April 14, 2015. In its rehearing petition, *Cuozzo* challenges the majority's rulings on review of institution decisions and the BRI standard. On the first issue, *Cuozzo* argues that Congress did not intend to make institution decisions bulletproof. While Congress intended for interlocutory appeals of institution decisions to be unavailable based on the time-sensitive nature of PTAB proceedings, *Cuozzo* argues that review of whether the PTAB has complied with the statutory requirements for institution must be available.⁴¹ On the second issue, *Cuozzo* argues that the BRI claim construction standard is inappropriate for PTAB proceedings and that the Patent Office does not have rule-making authority to implement that standard.⁴²

The PTO has responded and, as expected, has urged the Federal Circuit not to rehear the case on the view that the majority panel got it right.⁴³ The PTO reiterated that *Cuozzo*'s reading of § 314(d) to allow challenges to institution decision following final written decisions is contrary to the plain language and would render that section entirely redundant to other AIA provisions.⁴⁴ The PTO further defended the substantive rulemaking authority recognized by the Federal Circuit in arguing that the BRI standard is appropriate under the AIA.⁴⁵ Finally, the PTO argued that rehearing is improper for a practical reason, namely that, even if *Cuozzo* were right on the standards it wants the *en banc* court to adopt, it would not prevail under those standards on the facts of this case.⁴⁶ We await the Federal Circuit's decision on *Cuozzo*'s request.

In the meantime, in settling several issues, at least for now, the *Cuozzo* decision is a significant step in clarifying certain issues for the high volume of IPRs.

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Endnotes

- 1 35 U.S.C. § 314(a).
- 2 35 U.S.C. § 314(d).
- 3 35 U.S.C. §§ 314(b), 316(a)(11); 37 C.F.R. § 42.100(c).
- 4 35 U.S.C. § 315(e)(2).
- 5 35 U.S.C. § 319.
- 6 45 F.3d 1303 (Fed. Cir. 2005) (*en banc*).
- 7 Source: Patent Review Processing System (PRPS) (2015).
- 8 Initial Patent Office reports estimated approximately 460 petitions would be requested per year. 77 Fed. Reg. 48680, 48724. Through only the first four months of fiscal year 2015, 556 petitions for IPRs have been filed, projecting to more than 1,650 petitions for the year. Source: Patent Review Processing System (PRPS) (2015).
- 9 Claim 17 of the '074 patent depended from claim 14 and further from claim 10. The PTAB found that the 35 U.S.C. § 103 grounds of unpatentability presented by Garmin for claims 10 and 14 were insufficient, but that, when combined with an additional reference presented by Garmin for claim 17, the prior art not only taught the added limitation of claim 17 but also the limitations of claims 10 and 14. Having decided to institute trial for claim 17, the PTAB found that trial must also be instituted for claims 10 and 14, which are necessarily broader than claim 17. See Garmin, IPR2012-00001, Institution Decision, Paper 15 at 18-19 and 22-23.
- 10 Brief of Appellant Cuozzo at 27-47.
- 11 135 S. Ct. 831, 841 (2015). In *Teva*, the Supreme Court rejected the Federal Circuit's practice of reviewing lower courts' claim construction decisions *de novo*. The Court held that factual conclusions underpinning claim construction rulings must be given deference on appeal, being reviewed for “clear error.”
- 12 Brief of Appellant Cuozzo at 26-28.
- 13 *Id.* at 37-39.
- 14 Opinion of the court at 6; *In re Dominion Dealer Solutions, LLC*, 749 F.3d 1379, 1381 (Fed. Cir. 2014).
- 15 “A party dissatisfied with the final written decision of the Patent Trial and Appeal Board under section 318(a) may appeal the decision....” 35 U.S.C. § 319.
- 16 “A party to an *inter partes* review or a post-grant review who is dissatisfied with the final written decision of the Patent Trial and Appeal Board under section 318(a) or 328(a) (as the case may be) may appeal the Board's decision only to the United States Court of Appeals for the Federal Circuit.” 35 U.S.C. § 141(c).
- 17 Opinion of the court at 6-7.
- 18 Opinion of the court at 9-10.
- 19 Dissent at 13.
- 20 Dissent at 12-13.
- 21 Brief of Appellant Cuozzo at 30-34.
- 22 Brief of Intervenor PTO at 39-45.
- 23 *Id.* at 13-14, 16.
- 24 Opinion of the court at 11-13.

- 25 See, e.g., *In re Am. Acad. Of Sci. Tech Ctr.*, 367 F.3d 1359, 1364 (Fed. Cir. 2004) (“Giving claims their broadest reasonable construction ‘serves the public interest by reducing the possibility that claims, finally allowed, will be given broader scope than is justified.’”); *In re Carr*, 297 F. 542, 544 (D.C. Cir. 1924) (“For this reason we have uniformly ruled that claims will be given the broadest interpretation of which they reasonably are susceptible. This rule is a reasonable one, and tends not only to protect the real invention, but to prevent needless litigation after the patent has issued.”).
- 26 *Id.* at 13.
- 27 *Id.* at 16.
- 28 *Id.*
- 29 *Id.*
- 30 *Id.*
- 31 *Cooper Techs. Co. v. Dudas*, 536 F.3d 1330, 1335-36 (Fed. Cir. 2008) (explaining that 35 U.S.C. § 2(b) granted only interpretive, not substantive, rulemaking authority to the PTO).
- 32 Opinion of the court at 16-18; *Chevron, U.S.A. v. Natural Res. Def. Council, Inc.*, 467 U.S. 837 (1984).
- 33 Opinion of the court at 18.
- 34 *Id.* at 18-19.
- 35 Dissent at 2-3 (citing H.R. Rep. No. 112-98, pt. 1, at 46).
- 36 Dissent at 4.
- 37 Dissent at 3.
- 38 *Id.* at 47-49.
- 39 *Id.* at 25 (quoting *Tillotson, Ltd. v. Walbro Corp.*, 831 F.2d 1033, 1037 n.2 (Fed. Cir. 1987)).
- 40 Patent owner Cuozzo filed a request for rehearing *en banc* on March 23, 2015. The Federal Circuit could determine that the larger court should re-decide the case based on the potential import to the administration of the PTAB trial going forward. Should the Federal Circuit decline to rehear the case, Cuozzo could also petition the Supreme Court to hear its case via a petition for a writ of *certiorari*.
- 41 Cuozzo Request for Rehearing of March 23, 2015, at 6-12.
- 42 *Id.* at 13-15.
- 43 PTO Response of Intervenor of April 14, 2015.
- 44 *Id.* at 6.
- 45 *Id.* at 10-14.
- 46 *Id.* at 14-15.