

June 21, 2016

## *Cuozzo Speed Technologies, LLC v. Lee*

### **U.S. Supreme Court Upholds the Patent Trial and Appeal Board's Broad Claim-Construction Standard and Limits Review of Institution Decisions in Inter Partes Review**

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#### **SUMMARY**

Yesterday in *Cuozzo Speed Technologies, LLC v. Lee*,<sup>1</sup> the Supreme Court issued two significant holdings regarding the U.S. Patent Trial and Appeal Board's administration of inter partes review (IPR). First, the Court held that the Board in IPR may continue to construe patent claims using the same protocol it employs in patent examination and reexamination: giving patent claims their "broadest reasonable construction." Second, the Court held that in some circumstances the Board's decision to institute IPR is not subject to judicial review. Sullivan & Cromwell LLP served as counsel and presented oral argument to the Supreme Court on behalf of the petitioner.

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#### **BACKGROUND**

In 2011, Congress enacted the Leahy-Smith America Invents Act (AIA),<sup>2</sup> which established IPR as a more efficient way than district-court litigation to determine whether an issued patent is invalid. IPR has proven to be both extremely popular among patent challengers and particularly troublesome to patent owners. Since 2012, patent challengers have filed over 4,500 IPR petitions, and about 86% of the completed IPR trials have resulted in the invalidation of some or all of the claims under review.<sup>3</sup>

In IPR, a challenger files a petition seeking review of issued patent claims. The patent owner may file a response. The Board then institutes IPR if it determines that "the information presented in the petition \* \* \* and any response \* \* \* 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."<sup>4</sup> Once an IPR trial is instituted, the parties engage in discovery, briefing, and oral argument before a three-judge panel of the Board. Following trial, the Board issues a final written decision determining whether the claims are invalid. The

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entire IPR, including the Board's final written decision, must be completed within one year from the date of institution, absent an extension for good cause.

Although IPR was created as a quicker surrogate for district-court litigation, the Board has not used the same claim-construction standard as district courts and the International Trade Commission, which have long construed patent claims according to their "ordinary meaning \* \* \* as understood by a person of skill in the art."<sup>5</sup> Rather than giving claims their ordinary meaning, the Patent and Trademark Office (PTO) issued a rule directing the Board to afford claims in IPR their "broadest reasonable construction in light of the specification of the patent in which it appears."<sup>6</sup> The PTO historically has used the broadest-reasonable-construction standard in patent examination and reexamination. The Board's use of this standard has contributed to IPR's high rate of claim invalidation, because a broad reading of claim language makes it likelier that the claim encroaches upon prior art. The Board also has taken the position that its actions in instituting IPR are insulated from judicial review by Section 314(d) of the AIA, which provides that the Board's determination "whether to institute" IPR "shall be final and nonappealable."<sup>7</sup>

In this case, Garmin International, Inc. and Garmin USA (collectively, Garmin) filed a petition seeking IPR of all claims of a patent held by Cuozzo Speed Technologies, LLC. The Board instituted IPR of claims 10, 14, and 17 of the Cuozzo patent. The Board's decision to institute IPR of claims 10 and 14 was not based on the grounds specifically presented in Garmin's petition with regard to those claims; rather it was based on the grounds specified in the petition with regard to claim 17. The Board then issued a final written decision invalidating claims 10, 14, and 17. Cuozzo appealed the Board's ruling, and a divided panel of the Federal Circuit affirmed the Board's use of the broadest-reasonable-construction standard in interpreting Cuozzo's claims.<sup>8</sup> The panel majority also held that, even if the Board had exceeded its authority in instituting IPR for claims 10 and 14 by relying on information not identified in the petition as grounds for institution for those specific claims, the Board's decision to institute was judicially unreviewable.<sup>9</sup> The Federal Circuit denied rehearing by a vote of 6-5.<sup>10</sup> Cuozzo filed a petition for certiorari to resolve the proper claim-construction standard and whether the Board's institution decisions are reviewable.

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### THE SUPREME COURT'S DECISION

In a decision authored by Justice Breyer, the Supreme Court first held that the AIA bars judicial review of "mine-run" challenges to the Board's decision whether to institute IPR.<sup>11</sup> Review is unavailable where "the grounds for attacking the decision to institute [IPR] consist of questions that are closely tied to the application and interpretation of statutes related to the [Board's] decision to initiate [IPR]."<sup>12</sup> Review may be available, by contrast, for challenges "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" Section 314. Those types of challenges, the Court indicated, would be judicially reviewable under either the AIA or the Administrative Procedure Act.<sup>13</sup>

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The Court further held that the Board’s regulation adopting the broadest-reasonable-construction standard for IPR is a reasonable exercise of the PTO’s rulemaking authority. Under the AIA, the PTO may issue “regulations \* \* \* establishing and governing” IPR,<sup>14</sup> and in the Court’s view that regulatory authority is not limited to issuing procedural rules.<sup>15</sup> The Court deemed the PTO’s rule reasonable because IPR is a “hybrid proceeding” intended to “reexamine an earlier agency decision” to grant the patent; the PTO had used the broadest-reasonable-construction standard for a century in various proceedings; and the standard protects the public by preventing a patent from “tying up too much knowledge.”<sup>16</sup>

Justice Thomas concurred on the ground that, in his view, the doctrine of *Chevron* deference was not necessary to the Court’s decision in light of the express statutory grant of rulemaking authority to the PTO.<sup>17</sup> Justice Alito, joined by Justice Sotomayor, dissented in part because he would have permitted judicial review of the Board’s institution decision.<sup>18</sup>

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### IMPLICATIONS

The *Cuozzo* decision preserves current IPR practice before the Board, which has frustrated many patent owners. IPR has become a popular venue for patent challengers, in large part because its claim-construction standard is more challenger-friendly than that used in district courts and the International Trade Commission. Under the Court’s ruling, the Board may continue to use the broadest-reasonable-construction standard in IPR and other post-grant patent proceedings, including post-grant review, covered business method review, and *ex parte* reexamination.

Absent action by Congress or the PTO, *Cuozzo* permits patent claims to continue to be construed differently depending on the chosen forum (the Board, International Trade Commission, or federal district court). The differing standards allow the same patent claims to be upheld as valid in a district-court action, then canceled in a subsequent IPR. The Court acknowledged that the different standards create disparate outcomes, but concluded that the inconsistency is a product of Congress’s providing two different tracks—one before courts and one before the agency—for the review and adjudication of patent claims.<sup>19</sup>

*Cuozzo* also limits judicial recourse for patent owners when the Board exceeds its statutory authority in instituting IPR. The Board has aggressively asserted that challenges to its institution authority implicate its decision whether to institute IPR. The Court left open, however, the possibility of review where the Board flouts its institution authority in violation of the Constitution or some other clear statutory mandate.

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ENDNOTES

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- 1 579 U.S. \_\_\_, No. 15-446 (June 20, 2016).
- 2 35 U.S.C. § 100 *et seq.*
- 3 U.S. Patent and Trademark Office, Patent Trial and Appeal Board Statistics (May 31, 2016),  
<http://www.uspto.gov/sites/default/files/documents/2016-5-31%20PTAB.pdf>.
- 4 35 U.S.C. § 314(a).
- 5 *See Phillips v. AWH Corp.*, 415 F.3d 1303, 1314 (Fed. Cir. 2005) (en banc).
- 6 37 C.F.R. § 42.100(b).
- 7 35 U.S.C. § 314(d).
- 8 *In re Cuozzo Speed Techs.*, 793 F.3d 1268, 1279 (Fed. Cir. 2015).
- 9 *Id.* at 1273.
- 10 *In re Cuozzo Speed Techs.*, 793 F.3d 1297 (Fed. Cir. 2015).
- 11 Slip op. at 2.
- 12 *Id.* at 11.
- 13 *Id.* at 12 (citing 35 U.S.C. § 319; 5 U.S.C. §§ 706(2)(A)-(D)).
- 14 35 U.S.C. § 316(a)(4).
- 15 Slip op. at 13-14.
- 16 *Id.* at 16-17.
- 17 Slip op. at 1 (Thomas, J., concurring) (citing *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984)).
- 18 Slip op. at 1 (Alito, J., concurring in part and dissenting in part).
- 19 Slip op. at 19.

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