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## Federal Circuit Issues First Reversal & Remand of an *Inter Partes* Review in *Microsoft Corporation v. Proxyconn, Inc.* Addressing Claim Construction and Amendment Standards



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The Federal Circuit [issued](#) its first reversal and remand of a final decision in an *inter partes* review issued by the Patent Trial and Appeal Board ("PTAB"). In *Microsoft Corporation v. Proxyconn, Inc.*, No. 14-1543, a panel composed of Chief Judge Prost, Judge Lourie, and Judge Gilstrap (sitting by designation) held that the PTAB's constructions of the phrases "two other computers," "sender/computer," and "receiver/computer" were unreasonably broad, and remanded for further proceedings consistent with its opinion. The Court's decision marks the first ever reversal of an *inter partes* review decision by the PTAB, after 18 straight affirmances. Of the 18, fifteen have been affirmances without opinion issued under Federal Circuit Rule 36.

In brief, the Court upheld the PTAB's use of the broadest reasonable interpretation ("BRI") standard, but explained that the standard does not justify giving claims an unreasonably broad or legally incorrect interpretation. The Court then examined the statute and regulations governing amendment practice and concluded that the PTAB's interpretation was not plainly erroneous or inconsistent with them. Last, in reference to the PTAB's case-by-case interpretation of the same statute and regulations, the Court explained that while "[a] fluid, case-based interpretation by the PTO of its own regulations risks leaving interested members of the public in a state of uncertainty, without ascertainable standards and adequate notice to comply . . . we cannot say that the PTO has abused its discretion in choosing adjudication over rulemaking."

In the underlying proceedings before the PTAB, Microsoft challenged Proxyconn's patent directed to a system for increasing access speed in a packet-switched network. The PTAB concluded that all of the challenged claims, with the exception of one, were unpatentable. Both parties appealed. In addition to contesting the merits, Proxyconn challenged the PTAB's use of the BRI standard, as well as the PTAB's denial of Proxyconn's motion to amend. We discuss each aspect in more detail below.

### Broadest Reasonable Interpretation

With respect to BRI generally, the Court stated that it was bound by the panel decision in *In re Cuozzo*<sup>1</sup> – the first appeal of an *inter partes* review decided earlier this year, which blessed the Office's adoption of the hundred year old standard for use in *inter partes* review. *In re Cuozzo* is pending a decision on Cuozzo's request for rehearing en banc, and several amici have submitted briefs expressing concern about the outcome. But practitioners troubled by the Office's adoption and application of BRI can take some consolation. In this case, the panel rejected the PTAB's construction as "unreasonably broad," relying on precedent that constrains the Office's application of the BRI to interpretations that are legally correct under the canons set forth in *Phillips*<sup>2</sup>. Indeed, the panel dropped a footnote stating that its construction would have come out the same under the *Phillips* standard.

On the merits, the Court reviewed the Board's claim constructions de novo. The Court carefully analyzed the technical merits and set forth a detailed interpretation of the claim terms appealed by both parties. This suggests that a meritorious claim construction dispute appealed to the Federal Circuit is likely to receive the same careful consideration and attention to detail that appellants have come to expect from the Court. It also shows that "unreasonably broad" claim interpretations that are inconsistent with settled principles of claim construction are reversible on appeal.

<sup>1</sup> *In re Cuozzo Speed Technologies, LLC*, 778 F.3d 1271 (2015).

<sup>2</sup> *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005) (en banc).

## Proxyconn's Motion to Amend

This appeal also presented the question of whether the PTAB impermissibly relied on the requirements it set forth in *Idle Free Systems, Inc. v. Bergstrom, Inc.*,<sup>3</sup> in denying Proxyconn's motion to amend. In this case, the panel was not troubled by the PTAB's reliance on its own decisions, like *Idle Free*, to promulgate standards for motions to amend. The Court agreed with the Office that the regulation itself "is not an exhaustive list of grounds upon which the Board can deny a motion to amend." The Court also agreed that it is permissible for the Office to use adjudicative decisions like *Idle Free*, rather than traditional notice and comment rule-making, to set forth all the conditions that a patentee must meet in order to satisfy its burden of amendment. In that regard, the Court recognized that:

Some question the wisdom of the PTO's approach. Since IPRs were created, they have rapidly become a popular vehicle for challenging the validity of issued patents. Patentees who wish to make use of the statutorily provided amendment process deserve certainty and clarity in the requirements that they are expected to meet. A fluid, case-based interpretation by the PTO of its own regulations risks leaving interested members of the public in a state of uncertainty, without ascertainable standards and adequate notice to comply. Despite such concerns, we recognize that 'the choice between rulemaking and adjudication lies in the first instance within the [agency's] discretion.' . . . [W]e cannot say that the PTO has abused its discretion in choosing adjudication over rulemaking.

Slip. Op. at 24 (internal citations omitted).

The Court ultimately concluded that the PTAB reasonably interpreted the amendment rules as requiring the patentee to show that its substitute claims are patentable over the prior art of record. But the Court also stressed that "this case does not call on us to decide whether every requirement announced by the Board in *Idle Free* constitutes a permissible interpretation of the PTO's regulations." Slip. Op. at 25, n.4. It noted that the *Idle Free* decision itself was not before the Court, and expressly declined to address the other requirements that the Board relied upon—highlighting in particular *Idle Free*'s requirement that the patentee show patentable distinction over all "prior art known to the patent owner." *Idle Free*, 2013 WL 5947697, at \*4.

## Practical Takeaways

*Microsoft v. Proxyconn* demonstrates the Court's willingness to give appellants a meaningful review of PTAB decisions despite its track record of issuing summary affirmances. This applies particularly to claim construction appeals, which in most cases will be afforded de novo review – subject to *Teva*.<sup>4</sup> This case also clarifies that remands to the PTAB are possible, though it remains unclear how the PTAB will deal with that remand. Those concerned about the PTAB's use of the BRI should take heart that its application must still be both reasonable and legally correct. The Court acknowledged the uncertainty parties face when the Office uses adjudication rather than rulemaking to set standards and practices in these new proceedings. However, the Court's willingness to analyze the PTAB's application of *Idle Free* suggests that such decisions themselves are reviewable and should be appealed if their interpretation is improper.

<sup>3</sup> IPR2012-00027, 2013 WL 5947697 (June 11, 2013)

<sup>4</sup> *Teva Pharmaceuticals USA v. Sandoz, Inc.*, 135 S. Ct. 831 (2015).

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