

What Proxyconn Means For Future Inter Partes Reviews

Law360, New York (July 13, 2015, 11:46 AM ET) -- On June 16, 2015, the Federal Circuit decided *Microsoft Corp. v. Proxyconn Inc.*, which is the Federal Circuit's first decision reversing an inter partes review determination by the U.S. Patent and Trademark Office's Patent Trial and Appeal Board. Given the increased filing of IPR petitions, the intellectual property community has closely watched to see how much deference the Federal Circuit will accord the PTAB's decisions.

The Proxyconn case is thus historic insofar as it's the first time that the court has reversed a PTAB decision invalidating claims in an issued patent. This decision also provides some insights into how the Federal Circuit will review appeals from PTAB decisions in future IPR proceedings, including how to apply the "broadest reasonable interpretation" and the propriety of the judge-made rules for amending claims.



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Background: The Federal Circuit's Recent Review of IPR Decisions

By way of background, an IPR is a recently created trial proceeding created by the America Invents Act. Congress created IPR proceedings for the purpose of "providing quick and cost effective alternatives to litigation." [1] In an IPR, the PTAB will consider grounds of unpatentability under §§ 102 or 103, and only based on prior art patents or printed publications. Issuance of a final written decision will normally estop a petitioner again challenging validity of patent claims in district court based on grounds that were raised or reasonably could have been raised in the IPR.

IPRs began on Sept. 16, 2012, and have grown rapidly in popularity as an alternative to district court litigation. Reasons for their popularity include the PTAB's use of the broadest reasonable interpretation ("BRI") standard for construing patents claims, which many perceive to be broader than the Phillips standard used in U.S. district courts. The PTAB also reviews patentability under a "preponderance of the evidence" standard, which is lower than the "clear and convincing evidence" standard used in U.S. district courts. These factors, combined with the significantly lower cost and speedier resolution of IPRs, as compared with litigation in district courts, have made IPRs attractive.

So far, the Federal Circuit has decided fewer than 20 appeals from PTAB's AIA trials. This has consisted of just three precedential opinions, 15 summary affirmances, and one nonprecedential affirmance.

To date, Proxyconn, GTNX and Cuozzo are the only precedential decisions reviewing the PTAB's decisions in these recently created post-grant trials conducted by the PTAB. In Cuozzo, the Federal Circuit ruled that the PTAB correctly uses the BRI standard in construing patent claims in IPR proceedings, rather than a Phillips claim construction analysis used in district court.[2] In GTNX, the Federal Circuit made clear that the court will not review the PTAB's decision whether to institute an IPR.[3] Rather, the Federal Circuit will confine its review to the PTAB's final written decisions as to patentability. *Id.*

Until the Federal Circuit's recent decision in Proxyconn, all of the court's other decisions had affirmed the PTAB's rulings. This pattern of uniform affirmances by the Federal Circuit, at least before Proxyconn, contributed to the widely held perception that IPRs are a more favorable forum for challengers than for patent owners. In Proxyconn, the Federal Circuit provided some guidance regarding how to apply BRI and the requirements for motions to amend.

Proxyconn's Observations About How to Apply "Broadest Reasonable Interpretation"

First, in Proxyconn, the Federal Circuit, citing Cuozzo, once again confirmed that the broadest reasonable interpretation standard applies to AIA trials.[4] It also shed some light on how BRI should be applied in IPRs and when the PTAB's claim construction under BRI goes too far such that its constructions are unreasonable under general claim construction principles.

In Proxyconn, the Federal Circuit made clear that it will not uphold unreasonably broad constructions that are inconsistent with the proper scope of a claimed invention.[5] First, in construing claims under BRI, the court explained that "claims should always be read in light of the specification and teachings in the underlying patent." [6] Second, "[t]he PTO should also consult the patent's prosecution history in proceedings in which the patent has been brought back to the agency for a second review." [7] Third, the Federal Circuit stated that any construction under BRI "must be consistent with the one that those skilled in the art would reach." [8]

In several different ways, the Federal Circuit warned that a construction under BRI can be too broad if it doesn't follow the principles above. For example, the PTAB may not "construe claims during IPR so broadly that its constructions are unreasonable under general claim construction principles." [9] Further, the PTAB's construction "cannot be divorced from the specification and the record evidence" and "must be consistent with the one that those skilled in the art would reach." [10] Finally, "[a] construction that is 'unreasonably broad' and which does not 'reasonably reflect the plain language and disclosure' will not pass muster." [11]

In applying these principles, the Federal Circuit determined that a claim that generically recited "two other computers" was limited to sender/receiver computers when read in view of the specification. The court similarly held that the claim required sender/receiver computers distinct from gateway and caching computer intermediaries. On their face, the claims did not necessarily contain these requirements, but when read in light of the specification, the Federal Circuit determined they did under the BRI standard.

It is worthy of note that the Federal Circuit's criteria for construction under BRI, at least in this case, resemble those under Phillips.[12] Interestingly, in Proxyconn, the Federal Circuit explained that it would have reached the same result if it had applied "the traditional claim construction framework set forth in Phillips." [13] This implies that, at times, the meaning of claim terms could be the same under BRI and Phillips.

The similarity between the BRI construction discussed by the Federal Circuit in Proxyconn and traditional Phillips construction raises many questions about the use of BRI in the

future. For example, will the Proxyconn decision act to narrow the gap between a BRI construction and a U.S. district court construction. Does the Proxyconn decision open the door for the Federal Circuit to decide later that the PTAB should use the analysis found in Phillips to determine the BRI of claim terms? Should practitioners and the PTAB use Phillips as a framework to support its claim construction analysis under BRI? Given the number of appeals at the Federal Circuit and the growing interest in using AIA proceedings to invalidate patents, there will likely be future decisions providing guidance on the application of BRI in IPR proceedings.

The Proxyconn decision issued during a time in which some criticize using BRI to construe claims in these quasi-judicial proceedings. The policy behind BRI is to ensure that claims have justifiable breath over newly applied prior art through an amendment process. The PTAB regularly denies motions to amend claims in AIA trials. This has led to legislative efforts to mandate statutorily the PTAB to use the same analysis as district courts since Phillips. This should provide another reason for both the Federal Circuit and PTAB to provide guidance on how to analyze a claim under the BRI rubric.

Proxyconn's Observations About Amending Claims in an IPR

The Federal Circuit's decision in Proxyconn also provides some guidance as to whether the PTAB's current stern reluctance to permit claim amendments in IPRs will continue.

While there are other appeals before the Federal Circuit that requested review of the PTAB's amendment process, Proxyconn was the first to receive an opinion. Notably, in Proxyconn the Federal Circuit asked for supplemental briefing on the administrative procedure surrounding the amendment process. In particular, the Federal Circuit asked for briefing regarding the PTAB's authority to apply *Idle Free Systems Inc. v. Bergstrom Inc.* [14] and its requirements when the rule governing motions to amend includes no such requirements.

Idle Free is an informative opinion that outlines what the PTAB requires in a motion to amend claims. First, the motion to amend should include one substitute claim for one challenged claim. Second, the substitute claim must be responsive to an alleged ground of unpatentability, must narrow the claim it replaces, and must not introduce new matter. The third condition is that the PTAB expects the patent owner to provide a showing of patentable distinction over the prior art for each substitute claim.

In Proxyconn, the Federal Court agreed with the PTO that the amendment rule "is not an exhaustive list of grounds upon which the Board can deny a motion to amend." The court agreed with the PTO that the agency, like other federal agencies, may use rulemaking or adjudication to shape the contours of its rules.

The Federal Circuit stopped short of approving the complete set *Idle Free* requirements. It agreed with the PTO that the PTAB may require a patent owner to show a patentable distinction over the prior art of record, which in this case was limited to the prior art that "was very much a part of the entire [IPR]."[15] Because this was the issue before it in Proxyconn, the Federal Circuit dropped a footnote that the court was not addressing whether the patent owner needed to show a patentable distinction over all the prior art known to the patent owner — a major complaint of patent owners. So it remains unclear whether the "prior art of record" includes more than what was used to challenge the patent claims. It also remains unclear whether the PTAB may require a showing of patentability under §§ 101 and 112 in the motion to amend.

Conclusion

Proxyconn further clarifies the BRI analysis and requirements for motions to amend. BRI will remain the standard of claim construction in IPRs. Motions to amend will likely be

restricted to one-for-one substitutions. Motions to amend will also have to show at least a patentable distinction over the prior art in the petition and the petitioner's opposition to the motion to amend.

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[1] H.R. Rep. No. 112-98, pt. 1, at 48 (2011), 2011 U.S.C.C.A.N. 67, 78.

[2] *In re Cuozzo Speed Technologies LLC*, 778 F.3d 1271 (Fed. Cir. 2015).

[3] *GTNX Inc. v. INTTRA Inc.*, Nos. 15-1349, -1350, -1352, -1353 (Fed. Cir. June 16, 2015).

[4] *Proxyconn*, at 6.

[5] *Id.*

[6] *Id.* at 7.

[7] *Id.*

[8] *Id.*

[9] *Id.* at 6.

[10] *Id.*

[11] *Id.* at 7.

[12] *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005).

[13] *Id.* at 15, FN1.

[14] IPR2012-00027, 2013 WL 5947697 (PTAB June 11, 2013).

[15] *Idle Free* at 27.