

Friction between PTAB and the Federal Circuit?

As the Patent Trial and Appeal Board early post grant decisions make their way through the appeals process, **Ralph Loren** and **David Cotta** examine whether the Federal Circuit will reverse some of the PTAB's earlier decisions



In the approximately six months since the US Patent and Trademark Office's (USPTO's) Patent Trial and Appeal Board (PTAB) issued its first final decision in an America Invents Act (AIA)-post grant proceeding, decisions favourable to petitioners have vastly outnumbered those favourable to patentees. The early results of post grant validity challenges (*inter partes* review, post grant review or covered business methods), have been so grim for patent owners that former Chief Judge of the Federal Circuit Randall Rader recently called the PTAB a "death squad, killing property rights". While the courts have not always been favourable to patents, they have been more favourable to patent owners than the PTAB.

The PTAB's early post grant decisions are now beginning to make their way through the appeal process. One major question is whether the Federal Circuit is likely to reverse many of the PTAB's early decisions invalidating patents, or otherwise seek to bring post grant challenges into closer alignment with cases brought in federal court. The answer to this question, and the extent to which the PTAB's early decisions will survive on appeal, is likely to depend in large part on how the Federal Circuit handles claim construction and the denial of amendments.

Much of the disparity in results between post grant and district court invalidity proceedings can be attributed to different claim construction standards.

Generally speaking,¹ a broad claim construction increases the likelihood that a prior art reference will fall within the scope of a claim. In district court, claims are generally given their *ordinary and customary meaning* as understood by a person of ordinary skill in the art at the time of the invention and claims may be construed in a manner intended to preserve the validity of the patent.² In contrast, during post grant proceedings, claims are given their *broadest reasonable interpretation* consistent with the specification, and the PTAB makes no effort to construe the claims so as to preserve their validity.³

The PTAB's broadest reasonable construction standard is not unique

to AIA post-grant proceedings; the PTAB and its predecessor applied this standard in connection with reexamination and reissue proceedings. The use of a broadest reasonable construction standard in these proceedings was justified on the basis of the patent applicant's ability to amend the claims, which gave the applicant "the ability to correct errors in claim language and adjust the scope of claim protection as needed."⁴

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In AIA post-grant proceedings, a patentee's ability to amend claims is more limited than in reexamination or reissue proceedings. In theory, the PTAB allows one-for-one claim amendments. In practice, to date, no claim amendments have been allowed. In order for a patentee to amend a patent claim, the PTAB requires that the patentee make a detailed showing not only that the proposed amendment would overcome the prior art that is the basis of the post grant proceeding, but also that the proposed amendment would distinguish the claims over the prior art

in general, in light of the broadest reasonable construction standard. Many patentees believe that the amendment right, as limited by the PTAB, is illusory. Thus, the basis for applying the broadest reasonable construction standard in reexamination and reissue proceedings is, arguably, inapplicable in AIA post-grant proceedings.

The USPTO's decision to implement a broadest reasonable construction standard for post-grant proceedings is currently being challenged under the Administrative Procedure Act, as exceeding the USPTO's rule making authority.⁵ Unlike the broadest reasonable construction standard applied in reexamination or reissue, the broadest reasonable construction standard for IPR proceedings is enshrined in an agency regulation.⁶ Accordingly, whether the use of broadest reasonable construction in post grant proceedings survives Federal Circuit review is likely to turn primarily on agency law – whether the USPTO had the authority to issue the regulation – rather than on issues of policy and fairness.⁷ If the Federal Circuit finds the regulation to be outside the USPTO's rule making authority, it would go a long way toward bringing post grant practice closer to district court practice.

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Another factor that may separate district court and PTAB proceedings is the deference the Federal Circuit affords their claim constructions. District court claims constructions are reviewed *de novo*, leading to a relatively high reversal rate. It is less clear what standard of review will be applied to PTAB claim constructions. As Judge Plager recognised in his concurring opinion in *Flo Healthcare Solutions, LLC v Kappos*, the Federal Circuit has employed two different standards when reviewing PTAB claim constructions.⁸ Under the first standard, the Federal Circuit affords the PTAB considerable deference, affirming PTAB constructions if they are “reasonable”.⁹ Under the second standard, PTAB constructions are given no deference and reviewed *de novo*.¹⁰ If the broadest reasonable construction standard is upheld, litigants may also argue that, since the standard was implemented as an agency regulation (37 CFR § 42.100), the Federal Circuit owes deference to the PTAB's application of that standard. If the Federal Circuit affords any deference to the PTAB's claim constructions, it would further separate PTAB and district court proceedings, giving PTAB decisions lesser chance of being overturned than district court decisions.

Even if the Federal Circuit ends up reviewing PTAB claim constructions *de novo*, the PTAB will likely enjoy a higher affirmance rate than district courts (assuming the broadest reasonable construction regulation is upheld), simply because the PTAB's task of finding the broadest reasonable interpretation is easier than district court's task of arriving at the single “correct” interpretation. This is reflected in cases arising pre-AIA, where the Federal Circuit has tended to uphold PTAB claim constructions so long as they are consistent with the specification.¹¹ Similarly, in the context of *inter partes* reexamination, the Federal Circuit has recognised that it has a limited role. “The scope of our review in an appeal from a Board decision is limited.”¹²

As the law currently stands, given the different standards applied in AIA post-grant proceedings and in district court, the validity of a

patent may well depend on the forum in which its validity is challenged. Whether the Federal Circuit brings a greater consistency between PTAB and district court decisions remains to be seen.

Footnotes

1. At least some of the disparity in results before the PTAB as compared to district court can also be attributed to differences in the burden of proof required to prove a patent invalid. There is nothing the Federal Circuit can do to align the burdens of proof since the burden in district court (clear and convincing evidence) was recently confirmed by the Supreme Court and the burden in IPR proceedings (preponderance of the evidence) is set by statute. *Microsoft Corp v i4i Limited Partnership*, 131 S. Ct. 2238, 564 US __ (2011); 35 USC § 316.
2. *Phillips v AWH Corp*, 415 F.3d 1303, 1313 (Fed Cir 2005)(en banc)
3. *SAP American, Inc v Versata Dev Group, Inc*, 2012-0001 at 7 (PTAB, June 11, 2013).
4. *In re Yamamoto*, 740 F.2d 1569, 1572 (Fed Cir 1984) (upholding the use of the broadest reasonable construction standard in reexamination proceedings).
5. See, *Versata Development Group, Inc v SAP America, Inc* Case No 2014-1194
6. See 37 CFR. § 42.100
7. The Federal Circuit's decision in *Versata* will have a significant impact on IPR practice, as reflected by the 32 parties including a wide range of industries that have filed *amicus* briefs. The parties that have filed *amicus* briefs include Intel, Hewlett Packard, Dell, eBay, Facebook, Google, QVC, SAS Institute, Red Hat Inc, ZTE, HTC, Asustek, Rackspace Hosting, Newegg, 3M, Caterpillar, Eli Lilly, Xlinx, Vizio, General Electric, Johnson & Johnson, Procter & Gamble, Amgen, BP, Illinois Tool Works, GSK, Pfizer, Qualcomm and Sanofi.
8. 697 F.3d 1367, 1376 (Fed Cir 2012).
9. See, *In re Morris*, 127 F.3d 1048, 1055 (Fed Cir 1997) (“[t]he question then is whether the PTO's interpretation of the disputed claim language is ‘reasonable’”).
10. See, *In re Baker Hughes*, 215 F.3d 1297, 1301 (Fed Cir 2000) (“claim construction by the PTO is a question of law that we review *de novo*”).
11. See *eg, Tempo Lighting, Inc, v Tivoli LLC*, 742 F.3d 937 (Fed Cir 2014) (affirming PTAB construction in *de novo* review noting: “nothing in the specification is inconsistent with the Board's construction”); *In re Abbott Diabetes Care*, 696 F.3d 1142 (Fed Cir 2012) (reversing PTAB construction in *de novo* review after finding that the construction “unreasonable and inconsistent with the language of the claims and the specification”).
12. *Plasmart, Inc v Kappos*, No 2011-1570, 2012 WL 1850650, at *2 (Fed Cir 22 May 2012).

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