



Microsoft ruling clarifies guidance on *inter partes* reviews

- *Journal of Intellectual Property Law & Practice* (2015) 10 (12): 891-893. doi: 10.1093/jiplp/jpv177

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Microsoft Corp v Proxymon Inc v Michelle Lee, Director, US Patent and Trademark Office, Nos 2014-1542, 2014-1543, 2015 US App LEXIS 10081 (Fed Cir 16 June 2015)

Abstract

The US Court of Appeals for the Federal Circuit provides guidance on practice before the US Patent Trial and Appeal Board in *inter partes* review proceedings (IPR) with respect to claim construction and motions to amend. Specifically, the Federal Circuit confirmed (i) that the Board had the discretion to apply the ‘broadest reasonable interpretation’ claim construction standard to IPRs, and (ii) that the Board had discretion to require a patentee to show that its proposed substitute claims are patentable over all prior art of record, even if certain prior art did not form the basis for institution of the proceedings with respect to the corresponding challenged claim.

Legal context

During patent prosecution, when claims are being examined by the US Patent and Trademark Office, examiners are instructed to construe such claims given their ‘broadest reasonable interpretation’ in light of the specification as it would be interpreted by a person possessing ordinary skill in the art. The primary rationale for using this standard is that during patent prosecution, when pending claims can still be freely amended, interpreting the claims as broadly as possible would reduce the possibility that the claims, when finally allowed, would have broader scope than is justified. This same standard has historically been used by the Patent Office in post-issuance proceedings, like *ex parte* re-examination, *inter partes* re-examination and reissue proceedings, which likewise allow for liberal amendments of claims.

In 2011 the US Congress adopted new post-issuance proceedings, including IPRs, to replace the existing *inter partes* re-examination procedure. Final Decisions in an IPR can be appealed to the Federal Circuit. Unlike prior post-issuance proceedings, patent owners have a substantially more limited ability to amend their claims in an IPR than in original prosecution, or prior post-issuance proceedings. Nonetheless, earlier this year, split panel of



the Federal Circuit ‘held that the broadest reasonable interpretation standard in IPRs “was properly adopted by PTO regulation”’: *In re Cuozzo Speed Techs, LLC*, 778 F3d 1271 (Fed Cir 2015), rehearing granted, 2015 US App LEXIS 11714 (Fed Cir 8 July 2015), and rehearing *en banc* denied, 2015 US App LEXIS 11716 (Fed Cir 8 July 2015).

Also, in a 2013 Decision, the Board provided guidance on the requirements to amend claims during an IPR. In *Idle Free Systems, Inc v Bergstrom, Inc*, IPR2012-00027, Paper 26, 2013 WL 5947697 (PTAB 11 June 2013) the Board held:

A patent owner should identify specifically the feature or features added to each substitute claim, as compared to the challenged claim it replaces, and come forward with technical facts and reasoning about those feature(s), including construction of new claim terms, sufficient to persuade the Board that the proposed substitute claim is patentable over the prior art of record, and over prior art not of record but known to the patent owner. The burden is not on the petitioner to show unpatentability, but on the patent owner to show patentable distinction over the prior art of record and also prior art known to the patent owner. (*Idle Free Systems*, at 7)

Notably, the *Idle Free Systems* decision was not binding precedent but merely ‘informative’. ‘Informative’ Board decisions provide guidance on Board norms on recurring issues, but are not binding on Board panels.

In *Microsoft*, the Federal Circuit reaffirmed that the broadest reasonable construction standard is indeed the correct standard for construing claims in IPRs, noting its earlier binding decision in *In re Cuozzo*. However, the *Microsoft* court cautioned that even under the broadest reasonable interpretation standard, the Board may not construe claims so broadly that its constructions are *unreasonable* under general claim construction principles.

Facts

The Proxyconn patent-in-suit relates to a system for increasing the speed of data access in a packet-switched network. Representative system claims recite both a sender/computer and a receiver/computer, in addition to intermediary computers, such as a gateway computer and a caching computer. The invention increases the speed of data by utilizing ‘digital digests’ in lieu of the documents themselves.

During the IPR, Proxyconn filed a motion to amend seeking to substitute two new claims for two existing claims. Applying a prior art reference of record in the case to the new claims, the Board denied Proxyconn's motion to amend. The Board found all but one of the 11 challenged claims to be unpatentable as anticipated or rendered obvious.



The parties cross-appealed the Board's rulings on patentability and its application of the 'broadest reasonable interpretation?' standard of claim construction. Proxyconn also appealed the Board's denial of its motion to amend two of the invalidated claims. The Director of the United States Patent and Trademark Office intervened to address the Board's use of the broadest reasonable interpretation standard and its denial of Proxyconn's motion to amend.

Analysis

Chief Judge Prost, writing for unanimous panel of three judges, first confirmed that the broadest reasonable interpretation was indeed the correct standard for interpreting claims in IPRs, noting the binding decision on this exact issue in *In re Cuozzo Speed Techs, LLC*. However, the court cautioned that the Board may not construe claims 'so broadly that its constructions are *unreasonable* under general claim construction principles': *Microsoft*, 2015 US App LEXIS 10081, at *6 (emphasis in original). To this end, the court noted that, even under the broadest reasonable interpretation, the Board's construction 'cannot be divorced from' the teachings of the patent's specification and prosecution history.

With these principles in mind, the court conducted a detailed claim-by-claim analysis and determined that in two of three instances, the Board misapplied the standard, giving constructions that were so broad as to be *unreasonable*. The two *unreasonably* construed claim phrases were vacated and remanded.

The court next addressed Proxyconn's challenge of the Board's denial of its motion to amend two claims. Proxyconn argued that the Board improperly relied upon on a prior art reference which it had not been relied upon to institute IPR of the claims that it sought to amend. However, because the prior art reference was used to institute IPR for other claims at issue, the court found that the prior art reference was already in the record and that Board properly relied upon the reference in denying Proxyconn's motion to amend.

In so ruling, the court looked at two regulations (37 CFR s 42.20 and 42.121(a)(2)) promulgated by the Patent Office under the America Invents Act (AIA). Rule 37 CFR s 42.20 requires that '[t]he moving party has the burden of proof to establish that it is entitled to the requested relief' in motion practice. Rule 37 CFR s 42.121(a)(2) provides that, '[a] motion to amend may be denied where: (i) the amendment does not respond to a ground of unpatentability involved in the trial; or (ii) the amendment seeks to enlarge the scope of the claims of the patent or introduce new subject matter.' The court found that both regulations are 'plainly applicable to motions to amend filed during IPRs': *Microsoft*, 2015 US App LEXIS 10081, at *30.

The court also noted that the Board's 'informative' decision in *Idle Free Systems* requires the patentee to 'show patentable distinction [of the substitute claims] over the prior art of record.' Although this is not a requirement of the AIA, the court found no error in the



Board's adoption of this rule via *Idle Free Systems*. Proxyconn had not sufficiently shown the patentability of the amended claims, and particularly, had not shown that the amended claims would be patentable over the reference. The court recognized the Board's frequent citation to *Idle Free Systems* when denying motions to amend during IPRs.

In short, relying on the requirements of *Idle Free* to deny Proxyconn's motion to amend was a permissible adjudicatory decision within the Board's discretion. Notably, the Court agreed with the Director that Rule 42.121(a)(2) was not an exhaustive list of grounds upon which the Board can deny a motion to amend. Nonetheless, the court did warn that such a 'fluid, case-based interpretation by the [United States Patent and Trademark Office] [US]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': *Microsoft*, 2015 US App LEXIS 10081, at *31–32.

Practical significance

Microsoft marks the second case in which the Federal Circuit has reaffirmed the application of 'broadest reasonable interpretation' standard by the Board in an IPR. However, by requiring that the broadest reasonable interpretation must be a 'reasonable' interpretation supported by the record, the Federal Circuit appears to be sending the Board a message that it is not without limits on its authority.

Microsoft also showed the Federal Circuit's support of the Board's efforts to create workable rules and practices regarding IPR procedures so long as they are reasonable and easily ascertainable by the interested public. The Court recognized that it is permissible for the Board to require a patentee to show that its proposed substitute claims are patentable over all prior art of record, even if certain prior art did not form the basis for institution of the proceedings with respect to the corresponding challenged claim.

With the US Congress considering patent reform and potential modifications to IPR practice, *Microsoft* has demonstrated any changes to the current application of the broadest reasonable interpretation standard for claim construction, or the restrictive motion to amend practice, will most likely need to come from either the Patent Office, Congress or the US Supreme Court, and not the Federal Circuit.

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