



## US Supreme Court affirms claim construction standard and denies appeals of decisions to institute *inter partes* reviews of patents

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*Cuozzo Speed Techs, LLC, v Lee*, US Supreme Court, Docket No 15-446, Judgment, 20 June 2016

### Abstract

The US Supreme Court affirmed the discretion of the US Patent and Trademark Office (USPTO) to set the standard of claim construction during *inter partes* review of patents and refused to allow appellate review of decisions to institute an IPR based on the statutory framework. This case was the first challenge to the new post-issuance patent proceedings created by the America Invents Act to be decided by the Supreme Court.

### Legal Context

In 2011, the US Congress adopted one of the most sweeping changes to US patent law since the 1952 Patent Act. In the Leahy–Smith American Invents Act (AIA), a series of new post-issuance proceedings were adopted for implementation in 2012. One of these proceedings is the IPR, which is a litigation-like proceeding that takes place in the US PTO and allows a third party to challenge the validity of an issued patent on certain grounds (see CR Macedo and JS Hahm, ‘Understanding PTAB Trials: Key Milestones in IPR, PGR and CBM



Proceedings', Practical Law, 14  
October 2014, revised 28 April 2016,  
available at <http://www.arelaw.com/publications/view/practicallaw1014>).

The AIA gives the USPTO the authority to create the necessary regulations for the new post-issuance proceedings, including, as relevant here, the standard of patent claim construction (AIA, Public Law No 112-29, s 6, 125 Stat 284, 299-305 (2012)). The USPTO designated the Broadest Reasonable Interpretation (BRI) standard of claim construction for use in post-issuance proceedings which involve unexpired patents (37 CFR s 42.100(b)). The AIA also includes a provision that makes decisions to institute one of the proceedings 'final and nonappealable' (35 USC s 314(d)). The AIA does allow for appeals of the final written decision of a new post-issuance proceeding (35 USC s 319).

The present case involves the first *inter partes* review which resulted in a written decision on the merits of the validity challenge, and the first IPR to find patent claims invalid (*Garmin Int'l, Inc v Cuozzo Speed Techs, LLC*, IPR2012-00001 (PTAB 13 November 2013)). This case raises two issues:

1. the PTO's promulgation of the claim construction standard used in IPR; and
2. the appealability of decisions to institute an IPR after a final written decision (*Cuozzo Speed Techs, LLC v Lee*, 136?S Ct 890 (2016)).

## Facts

Cuozzo is the owner of the patent at issue, US Patent 6,778,074. Michelle K Lee is the Under Secretary of Commerce and Intellectual Property and Director of the USPTO. She is named in her official capacity.

Cuozzo's patent claims an invention that enables a speedometer in an automobile to indicate when the car is going over the speed limit. In 2012, Garmin USA, Inc and Garmin International, Inc (collectively, 'Garmin') filed a petition to institute an *inter partes* review to invalidate the Cuozzo patent. The USPTO agreed to institute the review and found that three claims of the patent were invalid in light of prior art cited by Garmin.

Cuozzo appealed to the US Court of Appeals for the Federal Circuit, arguing that the USPTO improperly instituted review of the patent because the claims examined, and ultimately found invalid, were not specifically identified in Garmin's petition to institute the *inter*



*partes* review. Cuozzo also argued that the wrong claim construction standard was used during the *inter partes* review. A three-judge panel of the Federal Circuit rejected both arguments, and the Federal Circuit denied *en banc* review of the panel opinion in a 6 to 5 decision. The Supreme Court granted certiorari on both issues.

## Analysis

The Supreme Court affirmed the Federal Circuit with respect to the adoption of the BRI standard. Writing for a unanimous court in Part III, Justice Breyer found that the USPTO did not exceed its authority when it designated the BRI as the claim construction standard during an *inter partes* review. Relying on the two-step process outlined in *Chevron, USA, Inc v NRDC, Inc*, 467?US 837 (1984), the court found that Congress had expressly delegated rulemaking authority to the USPTO and that the statute was ambiguous because it did not indicate which claim construction standard should be used.

Turning to the second step of the *Chevron* inquiry, the court held that the use of the BRI standard was a reasonable exercise of rulemaking authority. The court cited past practice at the USPTO and the public policy of protecting the public from faulty patents as support for using this standard. The court addressed two arguments advanced by Cuozzo relating to lack of ability to amend the patent and fairness, but ultimately was not persuaded. In summary, the court noted the numerous policy arguments for a different standard of review presented by Cuozzo and *amici*, but remarked that a court's task when reviewing agency rulemaking is to determine if the rule is reasonable in light of the authorizing statute, not to substitute its own decision-making for that of the agency.

In Part II of Justice Breyer's opinion, which was joined by five other justices, the court affirmed the Federal Circuit's holding that the decision to institute an IPR is not reviewable. As the court explained, the present dispute was an 'ordinary dispute about the application of certain relevant patent statutes concerning the Patent Office's decision to institute *inter partes* review.' Because the petition for a writ of certiorari focused on the language of the statute rather than on possible violations of the US Constitution or the Administrative Procedure Act, the court limited its analysis to the statutory question. The relevant statute states: 'The determination by the Director whether to institute an *inter partes* review under this section shall be final and nonappealable' (35 USC s 314(d)). Based on this language, the court concluded that s 314(d) prohibits appeals in these kinds of cases. In further support of its position, the court cited legislative history and congressional policy indicating Congress's desire to leave the decision to institute solely in the hands of the PTO.



However, the majority opinion left open the possibility that the bar against judicial review of institution decisions in s 314(d) is not absolute:

[W]e need not, and do not, decide the precise effect of §314(d) on appeals 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 ‘this section.’ (*Cuozzo*, No 15-446, slip op, at 11).

The Dissent, written by Justice Alito and joined by Justice Sotomayor, joined the opinion except as to Part II, the section concerning the appeal question. Justice Alito stressed the long-standing presumption of judicial review of administrative actions, and argued that s 314(d) was only intended to preclude any interlocutory appeal of the decision to institute, but not a review of that decision once a final judgment has been issued.

Justice Alito acknowledged that the facts of this matter did not present a strong case favouring appeals of decisions to institute. However, he pointed out that prohibiting all review of the decision to institute allows the USPTO to exceed statutory limitations constraining that decision, with no fear of appellate review, leaving dissatisfied parties with few remedies.

The Supreme Court’s decision can be split into two distinct parts: the unanimous affirmation of the PTO’s use of the BRI standard and the split decision denying appeals of decisions to institute an *inter partes* review.

The BRI analysis was a relatively straightforward application of the two-step process outlined in *Chevron* for judicial review of agency rulemaking. Here, the statute clearly authorizes the rulemaking: ‘The Director shall prescribe regulations . . . (4) establishing and governing inter partes review’ (35 USC s 316(a)(4)). However, the statute does not indicate which standard the agency should choose, and as the court points out, there are no indications in the legislative history that Congress considered which standard was appropriate. Thus, the statute is ambiguous and the court proceeded to the next step of the analysis.

In the second step of the *Chevron* analysis, the court found that the use of the BRI standard was reasonable. The court cited several factors supporting use of the standard, including long use of the standard by the USPTO and public policy. The court disregarded arguments for a different standard, as a court’s task in *Chevron* step two is only to decide if the adopted rule is reasonable.

The court’s holding that decisions to institute are not reviewable in ordinary circumstances



is more interesting. As discussed above, the court based its analysis on the language of the statute. However, even the majority opinion notes that ‘we need not, and do not, decide the precise effect of s 314(d) on appeals that implicate constitutional questions’. But as Justice Alito aptly points out after describing several ways in which the USPTO may exceed its authority in instituting an *inter partes* review:

I take the Court at its word that today’s opinion will not permit the Patent Office ‘to act outside its statutory limits’ in these ways. *Ante*, at 11. But how to get there from the Court’s reasoning—and how to determine which ‘statutory limits’ we should enforce and which we should not—remains a mystery. (*ibid*, 13–14)

The majority clearly acknowledged the problem of giving unlimited discretion to the USPTO, but did little to clarify exactly how that problem should be addressed. Accordingly, the majority opinion bars future challenges similar to the one presented by *Cuozzo*, but increases the likelihood that future challenges to the IPR scheme will consist of procedural challenges based on violations of the US Constitution or other statutory schemes such as the Administrative Procedures Act.

## Practical Significance

*Cuozzo* leaves the current *inter partes* review framework in place, meaning that the highly popular *inter partes* review proceeding is still available as a means of challenging patent validity. The decision also channels any challenges to the *inter partes* review and similar post-issuance proceedings into procedural grounds, such as violations of due process under the US Constitution or challenges under the Administrative Procedures Act. The precise nature of possible challenges remains unclear, as exemplified by the Supreme Court’s recent grant of certiorari in a case that contained similar challenges to *Cuozzo*, in contrast to typical court practice of denying certiorari on a settled issue (see *Click-To-Call Techs, LP v Oracle Corp*, No 15-1242 (US, 27 June 2016)). The court summarily vacated the Federal Circuit’s decision and remanded back to the Federal Circuit the case for further consideration in light of *Cuozzo*. The outcome of that case remains to be seen. However, at least for now, the current proceeding remains in place.

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