

# the patent investor

IN-DEPTH PATENT MONETIZATION COVERAGE

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**Finjan Holdings** forms new cybersecurity risk advisory business, re-enters consumer business with mobile secure browser app

**Spherix** is facing IPR to invalidate claims of remaining patent in original case against Verizon

**Crossroads Systems** says federal court grants favorable claims construction in actions vs. Oracle, NetApp and others

Dispute between **DSS Technology** and **Lenovo** dismissed after mediated settlement

**Vringo** has until Dec. 14 to regain compliance with Nasdaq's listing requirements

## Federal Circuit reverses PTAB invalidation of patent for first time citing unreasonably broad claims construction

In a ruling that may cheer patent owners and other critics of the inter partes review process, the Court of Appeals for the Federal Circuit ruled in the first ever reversal of a Patent Trial and Appeals Board ruling in an IPR filed by **Microsoft Corp.** against **Proxyconn Inc.** that the board's claims construction was "unreasonably broad" and "legally incorrect."

The ruling by Chief Judge Sharon Prost, Circuit Judge Alan Lourie and District Court Judge Rodney Gilstrap, who was sitting by designation, affirmed in part, reversed in part, vacated in part and remanded to the board its ruling which invalidated claims 1, 3, 6, 7, 9-10, 11, 12, 14, 22, 23 and upheld the validity of claim 24 of U.S. Patent No. 6,757,717.

The '717 patent relates to a system for increasing the speed of data access in a packet-switched network.

The PTAB ruling invalidating all but one of the claims was based on its determination that the broadest reasonable interpretation of claims construction applied in the case, which Proxyconn challenged.

The appellate court ruled that Proxyconn's argument that the broadest reasonable interpretation standard of claims construction shouldn't apply was "foreclosed by our decision in *In re Cuozzo Speed Techs., LLC*, 778 F.3d 1271 (Fed. Cir. 2015), rendered after the briefing in this case began.

In Cuozzo, the Federal Circuit held that the broadest reasonable interpretation standard in IPRs "was properly adopted by PTO regulation."

"Because we are bound by the decision in Cuozzo, we must therefore reject Proxyconn's argument that the Board legally erred in using the broadest reasonable interpretation standard during IPRs," the panel said.

"That is not to say, however, that the Board may construe claims during IPR so broadly that its constructions are unreasonable under general claim construction principles. As we have explained in other contexts, "[t]he protocol of giving claims their broadest reasonable interpretation. . .does not include giving claims a legally incorrect interpretation." "

The panel said "claims should always be read in light of the specification and teachings in the underlying patent."

"The 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.

"Even under the broadest reasonable interpretation, the Board's construction 'cannot be divorced from the specification and the record evidence,' In re NTP, Inc., 654 F.3d 1279, 1288 (Fed. Cir. 2011), and 'must be consistent with the one that those skilled in the art would reach,' In re Cortright, 165 F.3d 1353, 1358 (Fed. Cir. 1999).

"A construction that is 'unreasonably broad' and which does not 'reasonably reflect the plain language and disclosure' will not pass muster. Suitco, 603 F.3d at 1260.

The panel's decision acknowledged that some people question the PTAB's approach on not allowing claims to be amended during an IPR, though it upheld the board's decision rejecting substitute claims 35 and 36 based on Proxyconn failing to establish the validity of the claims.

"Some question the wisdom of the PTO's approach," the panel said. "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.'"

Michelle Lee, the director of the U.S. Patent and Trademark Office, was an intervenor in the appeal, and provided the appellate court with PTAB's view that the PTO lacked sufficient experience to develop a hard and fast rule when it comes to accepting substitute claims and as a result must handle each case on its own merits.

"The Director argues that adjudication is appropriate here because the PTO 'has not 'had sufficient experience with [motions to amend] to warrant rigidifying its tentative judgment into a hard and fast rule" and that the PTO 'thus 'must retain power to deal with [such motions] on a case-by-case basis if the administrative process is to be effective.'"

"Because there is merit to these arguments, we cannot say that the PTO has abused its discretion in choosing adjudication over rulemaking."

Officials from Microsoft declined to comment.

Proxyconn officials couldn't be reached for comment.

John Vandenberg, a partner with Klarquist Sparkman LLP in Portland Oregon, who represented Microsoft in the appeal, couldn't be reached fro comment.

"We got a couple of rubber stamps from the PTO and it was rather depressing," said Bryan Wheelock, a partner with Harness Dickey & Pierce PLC in St. Louis, who represented Proxyconn. To have the Federal Circuit reverse it was a real positive development for patent owners. It gives us some hope that we're going to keep some of our claims."

Until now, the PTAB has had a high grant rate and a high kill rate, Wheelock said.

Asked whether Microsoft was likely to appeal the decision, he said he didn't know, though because it was a claims construction matter they might not get very far on appeal. "I don't know if they will bother."

IP market watchers said the decision was noteworthy but probably not much use as precedent.

"The Federal Circuit has been affirming the overwhelming majority of PTAB appeals, often with Rule 36 rulings," said Mark Lemley, the William H. Neukom Professor, Stanford Law School Director, Stanford Program in Law, Science, and Technology Senior Fellow, Stanford Institute for Economic Policy Research partner, Durie Tangri LLP, in an email.

Rule 36 judgments, or summary affirmances, are often entered without an opinion in cases where a written opinion would not have precedential value.

"I'm not sure how much faith we can put in one decision, though it does help to make the point that 'broadest reasonable interpretation' is not without its limits."

The sheer volume of IPRs filed since the America Invents Act of 2011 meant the PTAB would eventually be reversed, said Brian Pandya, a partner with Wiley Rein in Washington, D.C.

"There was a lot of pent up demand and some low hanging fruit in the earliest cases," he said. "You'll probably see more reversals going forward, but I don't think it will become common."

The reason reversals won't become common is that PTAB gets to choose the IPRs it institutes and these have to have a high likelihood of the underlying patents being subject to invalidation.

The case "is noteworthy because it's the first ever reversal of PTAB by the Federal Circuit," he said. "If you're a patent owner it's good news, but I don't think it's a game changer."

The broadest reasonable interpretation is not a new concept, he said.

It allows the PTAB to rule on issues without having to review all the evidence that the district courts must review for claims construction.

Still, he said the PTAB was bound to get it wrong eventually.

The Federal Circuit's reversal of the PTAB invalidation of Proxycare's patent, shows that even though the Federal Circuit has said that it will provide what's known as Chevron deference to PTAB decisions, it won't stand for unreasonable decisions, said Adam Mossoff, a professor of law and director of academic programs and the Center for the Protection of Intellectual Property at George Mason University in Arlington, Virginia.

Chevron deference refers to the 1984 Supreme Court case *Chevron U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, which involved a dispute over the Environmental Protection Agency's interpretation of a provision of the Clean Air Act Amendments of 1977.

Under Chevron deference, even if a court finds that another interpretation is reasonable, or even better than the agency's interpretation, it must defer to the agency's reasonable interpretation.

"This is going to be a very rare decision because under Chevron deference it's very rare for the courts to reverse federal agencies."

To be sure, Mossoff said the PTO doesn't have the authority necessary for Chevron deference. He said it "doesn't have substantive rule-making authority, only procedural rule-making authority."

"As such, the very legal authority and justification for Chevron deference doesn't exist for the PTO."

This may set the stage for a Supreme Court review of the PTAB's claims construction interpretation, in the event that a district court decides a patent is valid and the PTAB decides the opposite, which has already happened in a couple cases, producing stinging dissents by Judge Pauline Newman addressing this separation of powers concern.

"That creates a constitutional problem about who gets to decide these matters," Mossoff said. "The Supreme Court eventually will have to decide. Until then, we'll have uncertainty."