

Singing the same claim construction tune: PTO adopts federal courts' standard

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On Oct. 11, the U.S. Patent and Trademark Office published notice of a final rule change adopting the claim construction standard applied by federal courts for use by the Patent Trial and Appeal Board in proceedings created by the Leahy-Smith America Invents Act.

Under the new rule, the PTAB will no longer interpret claims under the broadest reasonable interpretation, or BRI, standard. Instead, it will construe claims more narrowly according to the standard adopted by the U.S. Court of Appeals for the Federal Circuit in *Phillips v. AWH Corp.*, 415 F.3d 1303 (Fed. Cir. 2005), and its progeny.

While introducing some near-term uncertainty, ultimately the rule change likely will result in more consistent proceedings between the federal courts and the PTO — and relief to patent owners.

DETAILS

The PTO will revise 37 C.F.R. pt. 42 to provide that claims in inter partes review, post-grant review and covered business method proceedings “shall be construed using the same claim construction standard that would be used to construe the claim in a civil action under 35 U.S.C.A. § 282(b).”¹

The final rule replaces the BRI standard with the claim construction standard used in federal courts and International Trade Commission proceedings.

Operating under the *Phillips* standard, the PTAB will consider the claim language itself, the specification and prosecution history pertaining to the patent, and relevant extrinsic evidence.

However, patent examiners will continue to apply the BRI standard during original patent prosecution and re-examination proceedings.

The final rule change took effect on Nov. 13, and it applies to proceedings with petitions filed on or after that date.

The PTAB will apply the new *Phillips* standard to construe patent claims and proposed substitute claims in AIA proceedings in which trial has not yet been instituted before the effective date.

The BRI standard will continue to govern petitions filed before Nov. 13.

The PTO will now also consider any claim construction determination from a prior civil action, or a proceeding before the ITC, that is timely filed in the record of an IPR, PGR or CBM proceeding.

The rule requires the PTAB to consider a district court’s prior construction only if it is “timely made of record,” and the administrative law judges at the PTAB are not required to adopt the claim construction of a federal court.

The decision to implement the BRI standard drew criticism from many.

Regarding the timeliness of a submission, the PTO provided in its commentary that “parties should submit the prior claim construction determination by a federal court or the ITC in an AIA proceeding as soon as that determination becomes available. Preferably, a prior claim construction determination should be submitted with the petition, preliminary response, or response, with explanations.”

Existing rules that govern supplemental information submission during proceedings before the PTAB will govern the timing and procedures for submitting federal court claim construction decisions.

HOW WE GOT HERE

Congress, by enacting the America Invents Act, authorized the PTO to adopt regulations “establishing and governing” AIA proceedings before the PTAB.²

The PTO adopted the BRI standard when it established those proceedings.

The PTO reasoned that the BRI standard was appropriate because, under the AIA, a patent owner is able to amend the challenged claims to avoid prior art — a distinguishing characteristic between patent office proceedings and district court proceedings.³

The decision to implement the BRI standard drew criticism from many, and it was challenged shortly after the PTAB issued its first decisions under the program.

Ultimately, the U.S. Supreme Court considered whether PTO's decision to adopt the BRI standard was appropriate in *Cuozzo Speed Technologies LLC v. Lee*, 136 S. Ct. 2131 (2016).

In *Cuozzo*, the PTO reasserted its position that the BRI standard was appropriate because a patent owner can amend challenged claims in AIA proceedings to avoid prior art.

The Supreme Court deferred to the PTO, holding that Congress granted the agency authority to make substantive rules adopting a claim construction standard in AIA proceedings.

However, many practitioners and stakeholders called into question the reasoning provided by the PTO for adopting the BRI standard, because the ability to amend claims in AIA trials to avoid prior art, and have those amended claims accepted by the PTAB, proved to be rare.

A recent PTAB study indicates that out of all cases where a motion to amend was filed, only 18 out of 189 motions to amend were granted or granted in part.⁴

Though not specifically cited as a reason for the change to the *Phillips* standard, the lack of claim amendments, both filed and accepted, in AIA trials likely drove the PTO to make the change to the *Phillips* standard.

In addition to problems with amending claims in AIA proceedings, the PTO indicated that there was some merit to the concerns of stakeholders regarding the unfairness of applying different claim construction standards in AIA and district court proceedings.

Specifically, the PTO cited several studies that suggested the different claim construction standards resulted in a second bite at the apple for petitioners, decreased confidence in patent rights and proved to be a waste of parties' and judicial resources.

WHAT TO EXPECT

In some cases, the rule change likely will help patent owners avoid claim invalidation by the PTAB, particularly where similar claims have avoided invalidation in a federal district court.

However, the PTO describes the *Phillips* and BRI standards as similar, and it explains that "there have been very few decisions in which courts have attributed a variance in claim interpretation to the differences between the two standards."⁵

In fact, some believe that the BRI and *Phillips* standards have essentially converged.⁶

But the change does appear to limit the possibility of a patent challenger obtaining a narrow claim construction from the district court for the purpose of infringement analysis, and a significantly broader claim construction before the PTAB for the purpose of claim invalidation.

Because the PTAB will consider claim construction decisions in prior district court proceedings, both patent owners and challengers should expect to make more consistent arguments with regard to claim construction in the different fora.

For example, consistent arguments are particularly important in light of the Federal Circuit's recent ruling in *Maxlinear Inc. v. CF CRESPE LLC*, 880 F.3d 1373 (Fed. Cir. 2018), where a panel decided that issue preclusion should generally extend to all related claims sharing identical issues of patentability with the invalidated claims of an administrative decision.⁷

Following *Maxlinear*, the Federal Circuit applied collateral estoppel based on the claim construction of related claims from a separate IPR proceeding, and noted that not just identical claims are subject to collateral estoppel — "[r]ather it is the identity of the issues that were litigated that determines whether collateral estoppel should apply."⁸

The ability to amend claims in AIA trials to avoid prior art, and have those amended claims accepted by the PTAB, proved to be rare.

Because claim construction of the claims in related, but distinct, patents may be used in separate proceedings, patent owners should carefully consider their arguments and adopt a strategy in district court and PTAB proceedings that considers the broader patent family.

There is some uncertainty regarding whether the claim construction of a PTAB proceeding will have a preclusive effect in subsequent district court proceedings.

The Supreme Court held in *B&B Hardware Inc. v. Hargis Industries Inc.*, 135 S. Ct. 1293 (2015), that issue preclusion may apply to a determination by an agency when the ordinary elements of issue preclusion are met.

And while the Federal Circuit previously held in *Skyhawk Technologies LLC v. Deca International Corp.*, 828 F.3d 1373 (Fed. Cir. 2016), that issue preclusion is unlikely to apply to the PTAB's claim construction, it did so in part because claims in PTAB proceedings had been construed under a different standard than the standard applied in district court proceedings, and therefore had not been actually litigated.

Now that claims will be construed uniformly across the PTAB and district courts, there may be new breath in the argument that issue preclusion should apply to the PTAB's claim construction decisions.

Logistically, the final rule change likely will allow patent owners and challengers to leverage legal work performed developing claim construction arguments for district court proceedings in PTAB proceedings.

Given that an estimated 86.8 percent of patents in AIA proceeding have also been the subject of litigation in federal courts, the new rule should benefit parties funding simultaneous proceedings in one or more district courts and the PTAB.⁹

Federal court challenges to the rule change appear to be likely, especially for patents invalidated under the BRI standard between the passage of the AIA and the effective date of the new rule.

In addition, many questions remain, such as whether high institution rates at the PTAB for challenger petitions will decrease under the narrower *Phillips* standard.

The developing interplay and comity granted between the PTAB and district courts will also be of interest to parties, particularly with respect to granted stays in district courts pending the outcome of an AIA proceeding and the effectiveness of collateral estoppel.

Practitioners and stakeholders should also be on the lookout for more rule changes coming from the PTO and PTAB, as Director Andrei Iancu has shown a willingness to move swiftly to address lingering issues that have arisen since the implementation of the AIA.

For many years, the common terminology and discussions in patent literature and conferences included “patent quality,” “patent trolls” and “bad patents.” Under Iancu, the discussion has shifted back to innovation, consistency, efficiency and foreseeable rights for stakeholders.

While only certain issues can be addressed by an administrative agency through rulemaking, the current leadership at the PTO and PTAB seem willing to tackle many perceived problems head-on in this manner, even in light of potential court challenges ahead.

NOTES

¹ *Changes to the Claim Construction Standard for Interpreting Claims in Trial Proceedings Before the Patent Trial and Appeal Board*, 83 FED. REG. 51340 (Oct. 11, 2018). The full text of the rule change can be found at <https://bit.ly/2pO9zpf>.

² 35 U.S.C.A. § 316(a).

³ *Changes to Implement Inter Partes Review Proceedings, Post-Grant Review Proceedings, and Transitional Program for Covered Business Method Patents*, 77 FED. REG. 48679 (Aug. 14, 2012).

⁴ Patent Trial and Appeal Board, Motion to Amend Study, Installment 4: Update Through March 31, 2018, available at <https://bit.ly/2zMVX2T>.

⁵ See 83 FED. REG. 51340 (Oct. 11, 2018) (citation omitted).

⁶ Amicus Brief by Chief Judge Paul R. Michel, *Cuozzo Speed Tech.*, No. 15-2016, 2016 WL 806874 (2016) (“[T]he putative claim construction standard between courts and the Patent Office is the same – with the one minor difference being that courts may apply disclaimers made by a patent owner during prosecution ... while the Patent Office properly forces an applicant or Patent Owner to put the explicit text in the claims if it is not already there.”); Thomas King, Jeffrey A. Wolfson, *PTAB Rearranging the Face of Patent Litigation*, 6 LANDSLIDE 18 (2013) (“[I]t is difficult to say how the two standards are different, if at all.”); Laure E. Dolbow, *A Distinction Without a Difference: Convergence in Claim Construction Standards*, 70 VAND. L. REV. 1071 (2017) (“[T]he different claim construction standards have largely converged in practice, despite their differing rationales.”).

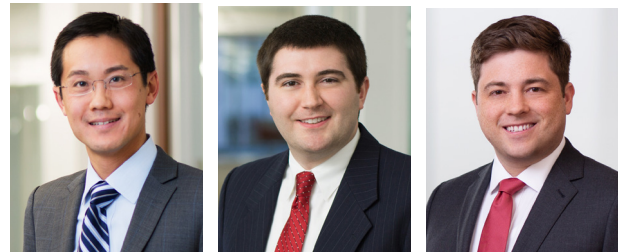
⁷ “We note that the collateral-estoppel effect of an administrative decision of unpatentability generally requires the invalidation of related claims that present identical issues of patentability.”

⁸ *Nestle USA Inc. v. Steuben Foods Inc.*, 884 F.3d 1350 (Fed. Cir. 2018) (quoting *Ohio Willow Wood Co. v. Alps South LLC*, 735 F.3d 1333 (Fed. Cir. 2013)).

⁹ Saurabh Vishnubhakat, Arti K. Rai & Jay P. Kesan, *Strategic Decision Making in Dual PTAB and District Court Proceedings*, 31 BERKELEY TECH. L.J. 45 (2016), available at <https://bit.ly/2QpH0hE>.

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