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Patent Cases in the October 2015 Term of the U.S. Supreme Court: *Halo Electronics v. Pulse Electronics* and *Cuozzo Speed Technologies v. Lee*

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Summary

This report examines the two patent law cases decided by the U.S. Supreme Court in its October 2015 Term. The first patent case, decided on June 13, 2016, *Halo Electronics, Inc. v. Pulse Electronics, Inc.,* concerns the circumstances in which the awarding of enhanced damages in a patent infringement case are warranted and the discretion of the district courts to award them. Section 284 of the Patent Act provides that the court may increase damages up to three times the amount found by a jury or assessed by the court, but does not provide any guidance to the court, or any express limits or conditions, in how to exercise its discretion to do so. The U.S. Court of Appeals for the Federal Circuit (Federal Circuit), a specialized tribunal established by Congress that has exclusive appellate jurisdiction in patent cases, limited such awards to cases of "willful infringement." Specifically, in its 2007 opinion, *In re Seagate Technology,* the Federal Circuit established a two-part test that must be met before the district court can exercise its discretion to increase damages under Section 284. This strict standard arguably made such awards very difficult for patent holders to recover. In a unanimous opinion, the *Halo* Supreme Court rejected the *Seagate* test for enhanced damages, determining that it was unduly rigid and inconsistent with the statutory grant of discretion to courts to decide when to award punitive damages. In invalidating the strict *Seagate* test, the *Halo* opinion advised district courts to exercise their discretion to award enhanced damages in a manner consistent with Supreme Court precedent that generally reserves such punishment for "egregious cases of misconduct beyond typical infringement."

The Court's second patent opinion of its October 2015 Term, issued on June 20, 2016, involves the "claim construction" standard used by the Patent Trial and Appeal Board (PTAB) of the U.S. Patent & Trademark Office (USPTO) in an administrative proceeding called an inter partes review (IPR), where members of the public may challenge the validity of issued patents. In *Cuozzo Speed Technologies, LLC v. Lee,* the Court upheld a USPTO regulation that requires the PTAB, in IPR proceedings, to read a disputed patent claim according to its "broadest reasonable interpretation." Such an interpretive standard arguably makes it more likely that the PTAB finds a patent claim to be obvious or not novel (and thus subject to invalidation), compared to in a judicial proceeding in which a court construes patent claims according to the "plain and ordinary meaning" of the claims' language (a narrower standard). Furthermore, the *Cuozzo* Court held that a provision of the Patent Act precludes judicial review of the USPTO's decision whether to institute an IPR proceeding.

The *Halo* opinion arguably favors patent holders by improving the chances of receiving enhanced damages in patent infringement cases, while *Cuozzo* leaves in place a process that may help third parties seeking to challenge the validity of issued patents. However, the impact of these decisions could be affected in the future by Congress, as some Members have expressed their disagreement with the *Halo* decision, and legislation pending in the 114th Congress (the Innovation Act (H.R. 9)) and the Protecting American Talent and Entrepreneurship Act (PATENT Act (S. 1137)) would require that the PTAB use the same claim construction standard in IPR proceedings that is applied by federal courts.

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Introduction

This report provides an overview and analysis of the two patent cases decided by the U.S. Supreme Court during its October 2015 Term, *Halo Electronics, Inc. v. Pulse Electronics, Inc.* (regarding the award of enhanced damages in "egregious" patent infringement cases) and *Cuozzo Speed Technologies, LLC v. Lee* (assessing the claim construction standard applied by the Patent Trial and Appeal Board in certain patent revocation proceedings). The report will begin with a review of the general principles of patent law. It will then describe the law governing enhanced damages and patent revocation proceedings prior to these two opinions. After providing that context, the report will discuss and analyze how the Supreme Court's opinions in *Halo* and *Cuozzo* affect current patent law.

Fundamentals of Patent Law

One of the primary purposes for United States patent law is to provide individuals, companies, and institutions with economic incentives to engage in research and development that lead to new products or processes. By granting inventors a limited monopoly over the use of their inventions and discoveries, patent holders will be able to receive a return on investment from their creations. Without patent protection, competitors could "free ride" on the inventor's research and development efforts and easily duplicate or otherwise practice the new inventions without having incurred the costs to develop them.[1]

According to Section 101 of the Patent Act (or the Act), one who "invents or discovers any new and useful process, machine, manufacture, or any composition of matter, or any new and useful improvement thereof, may obtain a patent therefore, subject to the conditions and requirements of this title."[2] Thus, an invention is eligible for patent protection if it falls within one of the four statutory categories of patent-eligible subject matter: processes, machines, manufactures, and compositions of matter. Whether the discovery is patentable subject matter is a threshold inquiry that "must precede the determination of whether that discovery is, in fact, new or obvious."[3]

The U.S. Patent and Trademark Office (USPTO) issues a patent to an inventor after its examiners approve the submitted patent application for an allegedly new invention.[4] An application for a patent consists of two primary parts: (1) a "specification," which is a written description of the invention enabling those skilled in the art to practice the invention, and (2) one or more claims that define the scope of the subject matter which the applicant regards as his invention.[5] These claims define the scope of the patentee's rights under the patent.[6]

Before a patent may be granted, the USPTO examiners must find that the new invention (1) is patentable subject matter and (2) satisfies several substantive requirements set forth in the Act.[7] One of the statutory requirements for patentability of an invention is "novelty."[8] For an invention

[1] ROGER SCHECHTER & JOHN THOMAS, PRINCIPLES OF PATENT LAW 7-8 (2d ed. 2004).

[2] 35 U.S.C. § 101.

[3] Parker v. Flook, 437 U.S. 584, 593 (1978).

[4] 35 U.S.C. § 131.

[5] *Id.* § 112.

[6] 3-8 DONALD S. CHISUM, CHISUM ON PATENTS § 8.01 (2016).

[7] 35 U.S.C. §§ 102, 103(a).

[8] *Id.* § 102.

to be considered "novel," the subject matter must be different than, and not be wholly "anticipated" by, the so-called "prior art,"[9] or public domain materials such as publications and other patents. Another statutory requirement is that the subject matter of an alleged invention must be "nonobvious" at the time of its creation. A patent claim is invalid if "the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains."[10] Finally, the invention must also be "useful," which means that the invention provides a "significant and presently available," "well-defined and particular benefit to the public."[11] Once a patent is issued by the USPTO, it is presumed to be valid;[12] however, members of the public may challenge the agency's decision to grant the patent either in litigation or in an administrative proceeding, as discussed in detail later in this report.

A patent holder has the exclusive right to exclude others from making, using, offering for sale, or selling their patented invention throughout the United States, or importing the invention into the United States.[13] Whoever performs any one of these five acts during the term of the invention's patent, without the patent holder's authorization, is liable for infringement.[14] A patent holder may file a civil action against an alleged infringer in order to enjoin him or her from further infringing acts (by securing an injunction, also referred to as injunctive relief).[15] The Act also provides federal courts with discretion to award damages to the patent holder that are "adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer."[16] The usual term of patent protection is 20 years from the date the patent application is filed.[17] At the end of that period, others may use the invention without regard to the expired patent.

Because the Act expressly provides that "patents shall have the attributes of personal property,"[18] patent holders may sell their patent rights in a legal transfer called an "assignment."[19] Alternatively, patent holders may grant others a "license" to exercise one of the five statutory patent rights.[20] A license is not a transfer of ownership of the patent, but rather is the patent holder's permission to another entity to use the invention in a limited way, typically in exchange for periodic royalty payments during the term of the patent.[21] A patent holder may grant to a

[9] "Prior art" is a legal term of art that refers to the materials (usually called "references" in patent law) that comprise the publicly available knowledge regarding the subject matter of the invention sought to be patented, such as other issued patents, publications, and evidence of actual uses or sales of the technology. ROGER SCHECHTER & JOHN THOMAS, PRINCIPLES OF PATENT LAW 323 (2d ed. 2004).

[10] 35 U.S.C. § 103(a).

[11] *In re* Fischer, 421 F.3d 1365, 1371 (Fed. Cir. 2005).

[12] 35 U.S.C. § 282(a).

[13] 35 U.S.C. §§ 154 (a)(1), 271(a).

[14] *Id.* § 271(a).

[15] *Id.* § 283.

[16] *Id.* § 284.

[17] *Id.* § 154(a)(2).

[18] *Id.* § 261.

[19] SCHECHTER & THOMAS, *supra* note 1, at 283.

[20] 35 U.S.C. § 154(a)(1).

[21] Kimble v. Marvel Entm't, LLC, 576 U.S. ___, 135 S. Ct. 2401, 2406 n.2 (2015) ("[T]he patent holder retain[s] ownership of the patent while licensing customers to use the patented article in exchange for royalty payments.") (citation omitted).

licensee the right to practice the invention through a contract (typically known as a patent licensing agreement). The terms of the licensing agreement, however, may include conditions upon the grant of rights—for example, restricting the licensee from making the invention but allowing that party to sell it.[22] A licensee that performs an act that exceeds the scope of the license (through a violation of the limitations and conditions of the grant of rights) or refuses to comply with the terms of the license agreement (such as by refusing to pay the required royalties) is potentially liable to the patent holder for breach of contract as well as for patent infringement.[23]

The U.S. Court of Appeals for the Federal Circuit (Federal Circuit) is a specialized tribunal established by Congress that has exclusive appellate jurisdiction in patent cases.[24] Parties dissatisfied with the Federal Circuit's rulings may petition the U.S. Supreme Court to review the appellate court's decision. However, the Supreme Court is not required to entertain the appeal; it has discretion to decide whether to grant certiorari to review the case.[25]

The next section of the report will describe the law governing the award of enhanced damages in patent infringement cases and how the Supreme Court's June 2016 opinion in *Halo Electronics, Inc. v. Pulse Electronics, Inc.* may affect it.

Willful Infringement and Enhanced Damages

Background

The Patent Act provides that a court "may increase the damages up to three times the amount found or assessed"[26] The Patent Act does not specify the circumstances in which "treble" damages are appropriate, and thus, an award of enhanced damages in patent infringement cases, as well as the amount by which the damages will be increased, falls within the district court's discretion. Nonetheless, the Federal Circuit has limited enhanced damages awards to cases of "willful infringement."[27] The appellate court has explained that willful infringement occurs when "the infringer acted in wanton disregard of the patentee's patent rights" based upon such circumstances as whether the infringer deliberately copied the ideas or design of the patentee, the closeness of the willfulness determination, the infringer's concealment of its conduct, and the infringer's motivations.[28] The court opined that willful infringement "is not simply a conduit for enhancement of damages; it is a statement that patent infringement, like other civil wrongs, is disfavored, and intentional disregard of legal rights warrants deterrence."[29] A 1992 Federal Circuit opinion stated that:

> Willfulness is a determination as to a state of mind. One who has actual notice of another's patent rights has an affirmative duty to respect those rights. That affirmative

[22] United States v. Gen. Elec. Co., 272 U.S. 476, 490 (1926).

[23] JOHN R. THOMAS, PHARMACEUTICAL PATENT LAW 427 (2005).

[24] 28 U.S.C. § 1295(a)(1).

[25] *Id.* § 1254(1).

[26] 35 U.S.C. § 284.

[27] *See* Beatrice Foods Co. v. New England Printing & Lithographing Co., 923 F.2d 1576, 1578 (Fed. Cir. 1991).

[28] Read Corp. v. Portec, Inc., 970 F.2d 816, 826-27 (Fed. Cir. 1992).

[29] Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F.3d 1337, 1342 (Fed. Cir. 2004).

> duty normally entails obtaining advice of legal counsel although the absence of such advice does not mandate a finding of willfulness.[30]

Under the willful infringement doctrine that existed since the 1980s until 2007, courts assessed whether the adjudicated infringer knew of the patent before being charged with infringement in court,[31] or if the infringer acted with the reasonable belief that the patent was not infringed or that it was invalid.[32] During this time period, Federal Circuit decisions emphasized the affirmative duty of someone with actual notice of a competitor's patent to exercise due care in determining if his or her acts will infringe that patent.[33]

Prior to 2004, the Federal Circuit held that when an accused infringer invoked the attorney-client or work-product privilege in refusing to answer interrogatories on whether the party had obtained the advice of legal counsel before it began allegedly infringing acts, courts were permitted to reach an adverse inference that either (1) no advice of counsel had been obtained or (2) the legal opinion had been obtained and was contrary to the infringer's desire to continue practicing the patented invention.[34] However, in its 2004 decision *Knorr-Bremse Systeme fuer Nutzfahrzeuge GmbH v. Dana Corp.*,[35] the Federal Circuit expressly rejected this principle and eliminated the adverse inference. The appellate court emphasized that a court may not draw an adverse inference with respect to willful infringement when the defendant in an infringement suit invokes the attorney-client or work-product privilege (because of the inappropriate burden it may place on the attorney-client relationship in patent cases) or when the defendant has failed to seek legal advice (because of the burdens and costs of such a requirement).[36] Following the *Knorr-Bremse* opinion, willful infringement determinations are based upon "the totality of circumstances, but without the evidentiary contribution or presumptive weight of an adverse inference that any opinion of counsel was or would have been unfavorable."[37]

In 2011, Congress essentially codified the holding of *Knorr-Bremse* with the passage of the Leahy-Smith America Invents Act,[38] which included language specifying that the "failure of an infringer to obtain the advice of counsel ... may not be used to prove that the accused infringer willfully infringed the patent.... "[39]

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[30] *Read Corp.,* 970 F.2d at 828 (internal quotations and citations omitted).

[31] *See, e.g.,* Gustafson, Inc. v. Intersystems Indus. Prods., Inc., 897 F.2d 508, 511 (Fed. Cir. 1990) ("A party cannot be found to have 'willfully' infringed a patent of which the party had no knowledge."); State Indus., Inc. v. A.O. Smith Corp., 751 F.2d 1226, 1236 (Fed. Cir. 1985) ("To willfully infringe a patent, the patent must exist and one must have knowledge of it.") (emphasis removed).

[32] Radio Steel & Mfg. Co. v. MTD Prods., 788 F.2d 1554, 1559 (Fed. Cir. 1986) (finding no willfulness where the defendant "was acting under the good faith belief that its wheelbarrow did not infringe the patent").

[33] *See, e.g.,* Underwater Devices, Inc. v. Morrison-Knudson Co., 717 F.2d 1380, 1389-90 (Fed. Cir. 1983) ("Where … a potential infringer has actual notice of another's patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing. Such an affirmative duty includes, inter alia, the duty to seek and obtain competent legal advice from counsel before the initiation of any possible infringing activity.") (citations omitted); *see also* Jon E. Wright, *Willful Patent Infringement and Enhanced Damages—Evolution and Analysis*, 10 GEO. MASON L. REV. 97 (2001).

[34] *See, e.g.,* Fromson v. Western Litho Plate & Supply Co., 853 F.2d 1568, 1572 (Fed. Cir. 1988) *overruled by* Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp., 383 F.3d 1337 (Fed. Cir. 2004).

[35] 383 F.3d 1337 (Fed. Cir. 2004).

[36] *Id.* at 1344-46.

[37] *Id*. at 1341.

[38] P.L. 112-29, 125 Stat. 284 (2011). For more information on this law, see CRS Report R42014, *The Leahy-Smith America Invents Act: Innovation Issues*, by John R. Thomas.

[39] P.L. 112-29, § 17, 125 Stat. 329 (2011) (codified at 35 U.S.C. § 298).

In re Seagate Technology

The Federal Circuit made significant changes to the willful infringement doctrine in its 2007 decision, *In re Seagate Technology*.[40] The appellate court overturned two decades of its precedent by opting to "abandon the affirmative duty of due care."[41] The Federal Circuit instead explained that accused infringers had no obligation to obtain an opinion of counsel.[42] Rather, "proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness."[43] Under this view, which the appellate court believed was required by Supreme Court precedent,[44] the "state of mind of the accused infringer is not relevant to this objective inquiry."[45] Thus, in order for a patent holder to establish willful infringement, "a patentee must show by clear and convincing evidence that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent."[46] Furthermore, if this objective standard is met, the patent holder must also demonstrate (also by clear and convincing evidence) that the infringer knew or should have known of the objectively high risk of infringement.[47]

Seagate thus requires a two-prong analysis, involving both an objective and subjective inquiry, that must be satisfied before the district court can exercise its discretion to increase damages pursuant to Section 284 of the Patent Act.[48] In addition, Federal Circuit precedent establishes a multipart standard of appellate review of an award of enhanced damages in patent cases:[49]

1. Part one of the *Seagate* test regarding objective recklessness is subject to *de novo* review.[50]
2. Part two of the *Seagate* test regarding subjective knowledge is reviewed under a substantial evidence standard.[51]
3. The final decision by the court to award enhanced damages is reviewed for abuse of discretion.[52]

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[40] 497 F.3d 1360 (Fed. Cir. 2007) (en banc).

[41] *Id.* at 1371.

[42] *Id.*

[43] *Id.*

[44] *Id.* ("[T]he duty of care announced in [a previous Federal Circuit opinion] sets a lower threshold for willful infringement that is more akin to negligence. This standard fails to comport with the general understanding of willfulness in the civil context …, and it allows for punitive damages in a manner inconsistent with Supreme Court precedent.") (citations and quotations omitted).

[45] *Id.*

[46] *Id.*

[47] *Id.*

[48] Halo Elecs., Inc. v. Pulse Elecs., Inc., 769 F.3d 1371, 1381-82 (Fed. Cir. 2014).

[49] Halo Elecs., Inc. v. Pulse Elecs., Inc., 579 U.S. ___, 136 S. Ct. 1923, 1930 (2016).

[50] *De novo* review is a standard of judicial review in which the appellate court considers the matter anew, granting no deference to the district court's conclusions. *See* Ditto v. McCurdy, 510 F.3d 1070, 1075 (9th Cir. 2007).

[51] Under a substantial evidence standard, the appellate court must uphold the district court's determination if there is "relevant evidence as a reasonable mind might accept as adequate to support" such a conclusion. Consolidated Edison Co. v. NLRB, 305 U.S. 197, 229 (1938).

[52] Under the abuse of discretion judicial review standard, the appellate court may reverse the district court's decision only when it is "convinced firmly that the reviewed decision lies beyond the pale of reasonable justification under the circumstances." Harman v. Apfel, 211 F.3d 1172, 1175 (9th Cir. 2000).

The Seagate standard was used by courts until the Supreme Court heard *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, as discussed in detail below.

Halo Electronics, Inc. v. Pulse Electronics, Inc.

Factual Background

Both Halo Electronics and Pulse Electronics are suppliers of electronic components. Halo believed that Pulse had infringed its patents pertaining to the design of certain types of electronics that are to be mounted onto the surface of printed circuit boards inside devices such as computers and Internet routers.[53] In 2002, Halo sent letters to Pulse offering to license Halo's patents, but the letters did not accuse Pulse of infringement.[54] However, after an engineer working for Pulse determined that Halo's patents were invalid, Pulse continued to sell the electronic components at issue independent of any agreement with Halo.[55] Pulse did not obtain the advice of counsel on the validity of Halo's patents after the engineer had reviewed the patents.[56]

Procedural History

In March 2007, Halo filed a patent infringement lawsuit against Pulse in the U.S. District Court for the District of Nevada.[57] The jury found that Pulse had directly infringed Halo's patents and awarded Halo $1.5 million in reasonable royalty damages.[58] The jury also found that it "was highly probable that Pulse's infringement was willful."[59] However, the district court concluded there was no willful infringement because Pulse had presented a defense at trial (claiming Halo's patents were invalid for obviousness) that, while ultimately unsuccessful, "was not objectively baseless."[60] Thus, the district court held that the "objective prong" of the *Seagate* willfulness inquiry was not satisfied in this case.[61]

The Federal Circuit affirmed the district court's decision to decline an award of enhanced damages. The appellate court agreed with the district court that Pulse's obviousness defense was not objectively unreasonable and thus Pulse did not willfully infringe Halo's patents.[62] In July 2015, Halo petitioned the Supreme Court for a writ of certiorari to review the Federal Circuit's judgment, which the Court granted.[63]

[53] *Halo,* 769 F.3d at 1374.
[54] *Id.* at 1376.
[55] *Id.*
[56] *Id.*
[57] *Id.*
[58] *Id.*
[59] *Id.*
[60] *Id.* at 1382.
[61] *Id.*
[62] *Id.* at 1383.
[63] Halo Elecs., Inc. v. Pulse Elecs., Inc., 136 S. Ct. 356 (2015).

Supreme Court's Opinion in *Halo*[64]

On June 13, 2016, in a unanimous opinion authored by Chief Justice Roberts, the Supreme Court ruled that the Federal Circuit's *Seagate* test for enhanced damages was inconsistent with Section 284 of the Patent Act.[65] In addition, the Court rejected *Seagate*'s requirement that a patent holder must prove recklessness by clear and convincing evidence because Section 284 "supplied no basis for imposing such a heightened standard."[66] Instead, the appropriate standard of proof is a preponderance of the evidence, a lesser standard.[67] The Court also rejected the Federal Circuit's multi-part standard for appellate review of an award of enhanced damages, explaining that a district court's discretion to award enhanced damages under Section 284 against adjudged patent infringers is reviewable on appeal for abuse of that discretion.[68] Because the district court and Federal Circuit had applied the now-invalidated *Seagate* framework to *Halo*, the Supreme Court vacated the judgment of the Federal Circuit and remanded the case.[69]

In reaching its conclusions in *Halo*, the Court relied significantly on its 2014 opinions, *Octane Fitness LLC v. Icon Health & Fitness, Inc.*[70] and *Highmark, Inc. v. Allcare Health Management Systems, Inc.,*[71] which concerned Section 285 of the Patent Act (granting courts discretion to award "reasonable" attorney's fees to the prevailing party "in exceptional cases").[72] Similar to its *Seagate* two-prong test for enhanced damages under Section 284, the Federal Circuit had articulated a two-part test for determining when a case was sufficiently "exceptional" under Section 285 to warrant the award of attorney's fees—when the claim asserted is both (1) brought in subjective bad faith and (2) objectively baseless.[73] However, the Supreme Court in *Octane Fitness* invalidated the Federal Circuit's test for exceptional cases because the standard improperly confined the ability of district courts to exercise the discretion to award attorney's fees that the Patent Act commits to them.[74] The *Octane Fitness* Court also rejected the Federal Circuit's requirement that prevailing parties establish their entitlement to attorney's fees by "clear and convincing evidence"[75] and instead embraced a "preponderance of the evidence" standard.[76] In *Highmark,* an opinion issued on the same day as *Octane Fitness,* the Court rejected the Federal Circuit's position that a district court's "exceptional case" determination is to be reviewed on

[64] The Supreme Court consolidated another case, *Stryker Corp. et al. v. Zimmer, Inc., et al.,* No. 14-1520, with *Halo* because both cases involve enhanced damages and the application of the Federal Circuit's *Seagate* opinion. *Stryker* involved a jury award of treble damages for willful patent infringement, which the Federal Circuit vacated after finding that the adjudged infringer had asserted "reasonable defenses" at trial. Stryker Corp. v. Zimmer, Inc., 782 F.3d 649, 661-62 (Fed. Cir. 2015).

[65] Halo Elecs., Inc. v. Pulse Elecs., Inc., 579 U.S. ___, 136 S. Ct. 1923, 1928 (2016).

[66] *Id.* at 1934. (citation omitted).

[67] *Id.*

[68] *Id.* (internal quotation marks and citation omitted).

[69] *Id.* at 1935-36.

[70] 572 U.S. ___, 134 S. Ct. 1749 (2014).

[71] 572 U.S. ___, 134 S. Ct. 1744 (2014).

[72] 35 U.S.C. § 285.

[73] Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc., 393 F.3d 1378, 1381 (Fed. Cir. 2005), *abrogated by* Octane Fitness LLC v. Icon Health & Fitness, Inc., 572 U.S. ___, 134 S. Ct. 1749 (2014).

[74] *Octane Fitness,* 134 S. Ct. at 1755.

[75] *Brooks Furniture Mfg.,* 393 F.3d at 1382.

[76] *Octane Fitness,* 134 S. Ct. at 1758.

appeal "de novo" and "without deference."[77] Instead, the Court held that the district court's determination must be reviewed on appeal under an abuse-of-discretion standard.[78]

The *Halo* Court explained that the reasoning and holdings in *Octane Fitness* and *Highmark* are "instructive" for its analysis of the *Seagate* test and the Federal Circuit's tripartite framework for appellate review of enhanced damages.[79] The Court noted that the express language of Section 284 "contains no explicit limit or condition," nor does the statutory text provide a "precise rule or formula" for awarding enhanced damages.[80] In contrast, the Court found that the *Seagate* test "is unduly rigid, and it impermissibly encumbers the statutory grant of discretion to the district courts."[81] According to the Court, the consequence of the *Seagate* approach is that "it can have the effect of insulating some of the worst patent infringers from any liability for enhanced damages."[82] The Court explained that the "principal problem" with the *Seagate* test is that it requires a court to determine, as a threshold matter, that the defendant's infringement was "objectively" reckless, as a prerequisite to the possibility of awarding enhanced damages.[83] Instead, the Court stated that "the subjective willfulness of a patent infringer, intentional or knowing, may warrant enhanced damages, without regard to whether his infringement was objectively reckless."[84] Furthermore, the *Seagate* test "aggravates the problem" because it allows an adjudged infringer to avoid enhanced damages by offering a reasonable defense at trial, "even if he did not act on the basis of the defense or was even aware of it."[85]

While the *Halo* opinion frees district courts from the constraints of the mechanical *Seagate* analysis in deciding whether to award enhanced damages (and in what amount), the Court cautioned district courts to exercise their discretion in a manner consistent with Supreme Court precedent that generally reserves such punishment for "egregious cases of misconduct beyond typical infringement."[86] The Court explained that "[t]he sort of conduct warranting enhanced damages has been variously described in our cases as willful, wanton, malicious, bad-faith, deliberate, consciously wrongful, flagrant, or—indeed—characteristic of a pirate."[87]

Justice Breyer issued a concurring opinion, joined by Justices Kennedy and Alito, that expressed his understanding of the limits on district courts' discretion to award enhanced damages. He first explained that "the Court's references to 'willful misconduct' do not mean that a court may award enhanced damages simply because the evidence shows that the infringer knew about the patent *and nothing more*."[88] Rather, courts must examine whether the circumstances in the case "transform[] simple knowledge into such egregious behavior" that merits a punitive sanction.[89]

[77] Highmark, Inc. v. Allcare Health Mgmt. Sys., 687 F.3d 1300, 1309 (Fed. Cir. 2012).

[78] Highmark, Inc. v. Allcare Health Mgmt. Sys., 572 U.S. ___, 134 S. Ct. 1744, 1747 (2014).

[79] Halo Elecs., Inc. v. Pulse Elecs., Inc., 579 U.S. ___, 136 S. Ct. 1923, 1934 (2016).

[80] *Id.* at 1931 (internal quotation marks and citation omitted).

[81] *Id.* at 1932 (internal quotation marks and citation omitted).

[82] *Id.*

[83] *Id.*

[84] *Id.* at 1933.

[85] *Id.*

[86] *Id.* at 1935.

[87] *Id.* at 1932.

[88] *Id.* at 1936 (Breyer, J., concurring) (emphasis in original).

[89] *Id.*

Second, Justice Breyer emphasized that the Court's interpretation of Section 284 is not intended to diminish or otherwise affect a new section of the Patent Act added by the Leahy-Smith America Invents Act that states: "The failure of an infringer to obtain the advice of counsel with respect to any allegedly infringed patent ... may not be used to prove that the accused infringer willfully infringed the patent.... "[90] He cited the likely high costs to small businesses and individual inventors in obtaining an opinion of counsel to determine if their products infringe a particular patent or if the patent is probably invalid; such costs could prevent or "discourag[e] lawful innovation."[91] By enacting this section of the Patent Act, "Congress has thus left it to the potential infringer to decide whether to consult counsel—without the threat of treble damages influencing that decision."[92]

Finally, Justice Breyer urged courts to carefully use their discretion in awarding enhanced damages, ensuring that such punitive measures be limited to cases involving egregious misconduct.[93] If increased damages are more readily available in any case involving intentional infringement, innovation could be hindered, he warned.[94] As an example, he specifically mentioned the risk that small businesses face when they receive "demand letters"[95] sent by "patent assertion entities"[96] (firms that do not develop, manufacture, or sell any product, but rather use patents primarily to obtain licensing fees from others):

> How is a growing business to react to the arrival of such a letter, particularly if that letter carries with it a serious risk of treble damages? Does the letter put the company "on notice" of the patent? Will a jury find that the company behaved "recklessly," simply for failing to spend considerable time, effort, and money obtaining expert views about whether some or all of the patents described in the letter apply to its activities (and whether those patents are even valid)? These investigative activities can be costly. Hence, the risk of treble damages can encourage the company to settle, or even abandon any challenged activity. [97]

Reactions to *Halo*

Some patent practitioners have called the *Halo* decision a significant victory for patent owners because the Federal Circuit's *Seagate* test had made it almost impossible for patentees to recover enhanced damages in cases of willful infringement.[98] Other observers were not surprised by the outcome in *Halo,* given the Court's 2014 *Octane Fitness* opinion.[99] One organization that

[90] *Id.,* quoting P.L. 112-29, § 17, 125 Stat. 329 (2011) (codified at 35 U.S.C. § 298).

[91] *Id.* at 1936-37.

[92] *Id.* at 1937.

[93] *Id.* at 1938.

[94] *Id.* at 1937-38.

[95] A patent demand letter is a letter sent by a patent holder to a company or an individual accusing the recipient of patent infringement. The letters tend to demand that the alleged infringer take a specific action such as ceasing the infringing action or agreeing to a licensing arrangement.

[96] For more information on this topic, see CRS Report R43979, *Patent Litigation Reform Legislation in the 114th Congress*, by Brian T. Yeh and Emily M. Lanza and CRS Report R42668, *An Overview of the "Patent Trolls" Debate*, by Brian T. Yeh.

[97] Halo Elecs., Inc. v. Pulse Elecs., Inc., 579 U.S. ___, 136 S. Ct. 1923, 1937 (2016) (Breyer, J., concurring).

[98] Emily Kodoll, *Attorneys React to High Court's Patent Damages Ruling,* LAW360 (Jun. 13, 2016, 6:52 PM), http://www.law360.com/articles/806367/attorneys-react-to-high-court-s-patent-damages-ruling (comments of Brian Pandya, patent attorney with Wiley Rein LLP, and Adam Sanderson, patent attorney with Reese Gordon Marketos LLP).

[99] *Id.* (comments of Case Collard, patent attorney with Dorsey & Whitney LLP; Russ Emerson, Haynes and Boone (continued...)

represents technology companies such as Amazon, Cisco, and Google, raised concerns that the *Halo* decision may incentivize patent assertion entities (sometimes pejoratively referred to by their critics as "patent trolls") to file more lawsuits and may also encourage patent holders to "forum shop" for district courts that have a reputation for being more willing to award enhanced damages.[100]

In an effort to demonstrate his disagreement with the Supreme Court's *Halo* decision, Senator Orrin Hatch filed a "sense of Congress" amendment to the Commerce, Justice, and Science Appropriations Bill that expressed Congress's views on willful infringement in patent cases.[101] The amendment's findings section indicates that Congress, in enacting the America Invents Act in 2011, was "well aware of the *Seagate* standard" and chose not to substantively amend Section 284 at that time, "knowing that no action from Congress would be required to ensure that the standard established in *Seagate* would remain in place and continue to govern the enhancement analysis under that section."[102] The amendment then expressed the sense of Congress that "(1) the Seagate standard has governed and continues to govern the enhanced damages analysis under section 284 of title 35, United States Code; and (2) this intent of Congress should be considered in any decisions interpreting that section."[103] As of the date of this Report, the Senate has not voted on this legislation or the amendment. In January 2016, Senator Hatch had filed an amicus brief in the *Halo* case, joined by Senators Leahy and Bennet and Representatives Bob Goodlatte, Lamar Smith, and Steven Chabot, that urged the Court not to alter or overturn the *Seagate* standard.[104]

Potential Impact of *Halo*

By rejecting the stringent *Seagate* test and lowering the patent holder's evidentiary burden of proof to establish an infringer's reckless actions, the *Halo* decision may possibly make it easier for patent holders to receive enhanced damages in certain circumstances.[105] In addition, once a patent holder is awarded enhanced damages by the district court, the Federal Circuit is unlikely to overturn that decision under *Halo's* "abuse of discretion" standard of appellate review.[106]

(...continued)

LLP; and John O'Quinn, patent attorney with Kirkland & Ellis LLP).

[100] Press Release by United for Patent Reform, *Supreme Court Ruling in Halo/Stryker Case Will Lead to More Lawsuits from Patent Trolls, More Forum Shopping by Repeat Plaintiffs,* Jun. 14, 2016, http://www.unitedforpatentreform.com/files/halo-stryker-statement-6-14-16885091629.pdf (last visited August 17, 2016).

[101] S.Amdt. 4748 to Commerce, Justice, Science, and Related Agencies Appropriations Act, 2016, H.R. 2578, 114th Cong. (2016), http://www.hatch.senate.gov/public/_cache/files/8e828767-4319-475d-8f5a-8cf2b78bf516/Hatch%204748.pdf (last visited August 19, 2016).

[102] S.Amdt. 4748, § ___ (a)(2), (3).

[103] *Id.* § ___ (b).

[104] Brief of Certain Members of Congress as Amici Curiae in Support of Respondents, Halo Electronics, Inc. v. Pulse Electronics, Inc., 579 U.S. ___, 136 S. Ct. 1923 (2016) (Nos. 14-1513, 14-1520), http://www.americanbar.org/content/dam/aba/publications/supreme_court_preview/briefs_2015_2016/14-1513_Amicus_resp_CertainMembersofCongress.authcheckdam.pdf (last visited August 19, 2016).

[105] Brent Kendall, *Supreme Court Makes It Easier for Patent Holders to Win More in Damages,* WALL ST. J. (Jun. 13, 2016, 3:18 PM), http://www.wsj.com/articles/supreme-court-makes-it-easier-to-win-big-damages-for-severe-patent-violations-1465830509.

[106] Richard D. Coller III et al., *Halo v. Pulse Ushers in New Era of Enhanced Damages in Patent Cases,* BNA'S PAT., TRADEMARK & COPYRIGHT J., DAILY ED. (Jun. 28, 2016), *available at* http://www.skgf.com/uploads/1455/doc/Halo_v._Pulse_Ushers_in_a_New_Era_of_Enhanced_Damages_in_Patent_Cases_BBNA_June_2016_Coller_Cornwell_Haley.pdf.

However, a patent practitioner has argued that "[t]he percentage of cases where district courts actually award enhanced damages may not go up much because the Supreme Court has set a high bar of 'egregious' behavior."[107] Another practitioner notes that, as a practical matter, the challenge facing patent holders and third parties "is predicting where the line will ultimately fall between typical infringement and egregious cases, as well as what an accused infringer should do—or must do—to be on the safe side of that line."[108] In future cases, courts will likely need to determine the range of "egregious misconduct" that may warrant enhanced damages under the *Halo* standard.

The remaining portion of this report will describe the mechanics of the USPTO's patent reexamination proceedings, including the claim construction standard that applies to them. It will then discuss the impact of the Supreme Court's June 2016 opinion in *Cuozzo Speed Technologies v. Lee* on these proceedings.

Reexamination of Issued Patents

Although patents issued by the USPTO are presumed to be valid,[109] accused infringers may assert in court that a patent is invalid or unenforceable on a number of grounds. The accused infringer could raise this argument as an affirmative defense or counterclaim when sued for patent infringement.[110] A party could also preemptively file a "declaratory judgment action"[111] against a patent owner to challenge a patent's validity if there is a case or controversy between them.

However, the constitutionally based "case or controversy" requirement[112] for federal judicial proceedings significantly limits the ability of members of the general public to challenge the USPTO's decision to grant a patent. Unless the patent holder becomes involved in an actual, continuing controversy with another person, that person may have difficulty requesting that a federal court determine that a patent is invalid.[113] To address this perceived deficiency, Congress in 1980 established an administrative reexamination mechanism through which the USPTO may reconsider its initial decision to approve a patent application.[114] Members of the public may challenge the validity of an issued patent in these patent reexamination proceedings, which need not satisfy the constitutional "case or controversy" requirement because the proceedings are administrative in nature and do not involve a use of the federal judicial power.[115] Furthermore, the proceedings serve as a potentially faster and cheaper alternative to judicial determinations of

[107] Kodoll, *supra* note 98 (quoting Dan Bagatell, patent attorney with Perkins Cole LLP).

[108] *Id.* (quoting Terry L. Clark, patent attorney with Bass Berry & Sims PLC).

[109] 35 U.S.C. § 282(a).

[110] *Id.* § 282(b).

[111] For more on declaratory judgment actions in patent cases, see CRS Report RL34156, *A Nonrepudiating Patent Licensee's Right To Seek Declaratory Judgment of Invalidity or Noninfringement of the Licensed Patent: MedImmune v. Genentech*, by Brian T. Yeh.

[112] The requirement that an immediate, concrete dispute exist between the patent owner and another individual arises because the U.S. Constitution vests the federal courts with jurisdiction only where a "case or controversy" exists. U.S. CONST., Art. III, Sec. 2, cl. 1. A charge of patent infringement typically satisfies the "case or controversy" requirement. *See* Prasco, LLC v. Medicis Pharm. Corp., 537 F.3d 1329 (Fed. Cir. 2008).

[113] MedImmune, Inc. v. Genentech, Inc., 549 U.S. 118, 126 (2007).

[114] P.L. 96-517, § 1, 94 Stat. 3015 (1980).

[115] *See* Amy J. Tindell, *Final Adjudication of Patent Validity in PTO Reexamination and Article III Courts: Whose Job Is It Anyway?*, 89 J. PAT. & TRADEMARK OFF. SOC'Y 787, 790 (2007) ("[A] reexamination may take place in the absence of a dispute, but as provided in the Constitution, attention from a court requires a case or controversy.").

patent validity.[116] There are several possible outcomes of reexamination proceedings: a certificate confirming the patentability of the original claims, an amended patent with narrower claims, or a declaration of patent invalidity.[117]

Subtitle F of the American Inventors Protection Act of 1999, entitled the Optional Inter Partes Reexamination Procedure Act of 1999, renamed the original reexamination proceeding as an "ex parte reexamination" and also provided a new administrative proceeding called an "inter partes reexamination."[118] The inter partes reexamination allowed the patent challenger to participate more fully in the proceedings through the submission of arguments and the filing of appeals.[119] However, the number of requests for reexamination under either type of proceeding was fewer than some observers had anticipated.[120] Some commentators also questioned the proceedings' effectiveness.[121]

America Invents Act and PTAB Proceedings

In 2011, Congress enacted the Leahy-Smith America Invents Act (AIA),[122] which made significant changes to the USPTO's reexamination proceedings. The AIA first created the Patent Trial and Appeal Board (PTAB) within the USPTO to handle these proceedings.[123] The PTAB's membership consists of the USPTO director, deputy director, the Commissioner for Patents, the Commissioner for Trademarks, and the administrative patent judges.[124] A panel of at least three members of the PTAB, who are designated by the USPTO director, hears challenges to a patent's validity.[125]

The AIA introduced a new proceeding called "post-grant review" (PGR)[126] and also replaced the existing inter partes reexamination system with an "inter partes review" proceeding (IPR).[127] In a

[116] Mark D. Janis, *Rethinking Reexamination: Toward a Viable Administrative Revocation System for U.S. Patent Law,* 11 HARV. J. L. & TECH. 1, 40-41 (1997).

[117] SCHECHTER & THOMAS, *supra* note 1, at 450.

[118] P.L. 106-113, 113 Stat. 1501, 1501A-567 to 1501A-570 (1999).

[119] John R. Thomas, *Intellectual Property Challenges in the Next Century: Collusion and Collective Action in the Patent System: A Proposal for Patent Bounties,* 2001 U. ILL. L. REV. ONLINE 305, 326 (2001).

[120] *See* William Barrow, *Creating a Viable Alternative: Reforming Patent Reexamination Procedure for the Small Business and Small Inventor*, 59 ADMIN. L. REV. 629, 636-37 (2007) ("Because third parties are unable to actively participate throughout the process, ex parte reexamination is only attractive as a supplement, rather than as a substitute, to civil litigation."); Dale L. Carlson & Jason Crain, Speech, *Reexamination: A Viable Alternative to Patent Litigation?,* 3 YALE SYMP. L. & TECH. 2, 6-7 (2000) ("[T]he third-party requester is estopped, or precluded, from raising issues that could have been raised, should have been raised, or might have been raised during the course of the inter partes reexamination proceeding. The downside is that this estoppel … makes the new procedure much less attractive for many parties.").

[121] Scott M. Daniels & Kate Addison, *Why Wait for Oppositions?,* 47 IDEA: THE INTELLECTUAL PROPERTY LAW REVIEW 343 (2007) ("[C]onventional wisdom holds that the current system of ex parte reexamination is sadly ineffective and that inter partes reexamination is worse.").

[122] P.L. 112-29, 125 Stat. 284 (2011). For more information on this law, see CRS Report R42014, *The Leahy-Smith America Invents Act: Innovation Issues*, by John R. Thomas.

[123] P.L. 112-29, § 7(a), 125 Stat. 313(2011) (codified at 35 U.S.C. § 6); *see also* USPTO, WELCOME TO THE PATENT TRIAL AND APPEAL BOARD (PTAB), https://www.uspto.gov/patents-application-process/patent-trial-and-appeal-board-0 (last visited August 17, 2016).

[124] 35 U.S.C. § 6(a).

[125] *Id.* § 6(c).

[126] P.L. 112-29, § 6(d), 125 Stat. 305 (2011) (codified at 35 U.S.C. § 321).

[127] P.L. 112-29, § 6(a), 125 Stat. 299 (2011) (codified at 35 U.S.C. § 311).

PGR proceeding, petitioners may challenge the validity of an issued patent based on any ground of patentability (such as unpatentable subject matter, or failure to meet the statutory standards of novelty and nonobviousness).[128] A petition to initiate a PGR must be filed with the USPTO *within nine months* of the date of patent grant.[129] To authorize a PGR to be instituted, the USPTO director must determine that the petitioner has presented information in the petition that, if not rebutted, would demonstrate that it is "more likely than not that at least one of the claims" is unpatentable.[130] A PGR must be completed within a year of its commencement, with an extension of six months possible for good cause shown.[131]

A challenger to a patent may file a petition with the USPTO requesting the institution of an IPR proceeding *nine months after a patent issues or reissues*, or the conclusion of any post-grant review, whichever occurs later.[132] In an IPR proceeding, petitioners may challenge the validity of an issued patent only on the basis of prior art consisting of patents or printed publications. As a result, patent challenges under IPR are limited to the patentability issues of novelty and nonobviousness.[133] To authorize an IPR to be instituted, the USPTO director must determine that the petitioner has provided information in the petition that there is a "reasonable likelihood" that he or she would prevail with respect to at least one claim.[134] An accused infringer may not petition for an IPR if he or she has already filed a declaratory judgment action in federal court challenging the patent, or more than a year has passed since the date the accused infringer was served with a complaint alleging infringement of that patent.[135] Should the patent survive the IPR proceeding, the individual who commenced the proceeding, along with his privies,[136] are barred in the future from raising issues that were "raised or reasonably could have been raised."[137]

An IPR must be completed within a year of its commencement, with an extension of six months possible for good cause shown.[138]The timing and scope of the two USPTO patent revocation proceedings described above are as follows:

1. A patent may be challenged at the USPTO on any basis of any patentability issue within nine months from the date the patent issued (by filing a petition for a PGR proceeding).
2. Thereafter, and throughout its entire term, a patent may be challenged at the USPTO only on the grounds of novelty and nonobviousness (via an IPR).

In an IPR or PGR proceeding, "the petitioner shall have the burden of proving a proposition of unpatentability by a preponderance of the evidence."[139] A party dissatisfied with the PTAB's final written decision in an IPR or PGR proceeding may appeal directly to the Federal Circuit.[140]

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[128] 35 U.S.C. § 321(b).

[129] *Id.* § 321(c).

[130] *Id.* § 324(a).

[131] *Id.* § 326(a)(11).

[132] *Id.* § 311(c).

[133] *Id.* § 311(b).

[134] *Id.* § 314(a).

[135] *Id.* § 315.

[136] "Privy" refers to "a person having a legal interest of privity in any action, matter or property; a person who is in privity with another." "Privity" is the "connection or relationship between two parties, each having a legally recognized interest in the same subject matter (such as a transaction, proceeding, or piece of property." *Privy; Privity*, BLACK'S LAW DICTIONARY (10th ed. 2014).

[137] 35 U.S.C. § 315(e).

[138] *Id.* § 316(a)(11).

Claim Construction Standard for Patent Revocation Proceedings

As described earlier in this report, an application for a patent consists of a "specification," which is a written description of the invention, and one or more "claims," which define the scope of the subject matter which the applicant regards as his invention.[141] "Claim construction" refers to the interpretation of the language of these claims; specifically, to construe the meaning of a patent claim to establish the boundaries of the invention.[142] Patent claim interpretation is the process in which a court[143] and the USPTO[144] determine the scope of the patent holder's proprietary rights.

The AIA is silent on what claim construction standard is appropriate in the IPR and PGR proceedings conducted by the PTAB. However, the AIA granted the agency authority to issue "regulations … establishing and governing inter partes review under this chapter."[145] Exercising this authority, the USPTO promulgated a regulation in August 2012[146] that provided the following standard for claim construction in an IPR: "[a] claim in an unexpired patent shall be given its broadest reasonable construction in light of the specification of the patent in which it appears."[147] Such an interpretive standard is also referred to as the "broadest reasonable interpretation" (BRI).[148] The BRI standard arguably makes it more likely that the PTAB finds a patent claim to be obvious or not novel (and thus subject to invalidation in an IPR), compared to in a judicial proceeding in which a court construes patent claims according to the "plain and ordinary meaning" of the claims' language (a narrower standard).

No Appeal of the USPTO's Decision Whether to Institute an IPR

The AIA includes a provision designed to prevent a court from considering a challenge to the USPTO's decision regarding the institution of an IPR, stating that "[t]he determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable."[149]

Elements of the IPR process, including the claim construction standard, were considered by the Supreme Court in the recent case *Cuozzo Speed Technologies, LLC v. Lee*, discussed in detail below.

(...continued)

[139] *Id.* §§ 316(e), 326(e).

[140] *Id.* §§ 319, 329.

[141] *Id.* § 112.

[142] SCHECHTER & THOMAS, *supra* note 1, at 474.

[143] In *Markman v. Westview Instruments*, 517 U.S. 370 (1996), the Supreme Court held that claim construction is a question of law reserved for the court and not a question of fact left to the fact finder.

[144] USPTO, MANUAL OF PATENT EXAMINING PROCEDURE (MPEP), § 2111, https://www.uspto.gov/web/offices/pac/mpep/s2111.html (last visited August 18, 2016).

[145] P.L. 112-29, § 6(a), 125 Stat. 302 (2011) (codified at 35 U.S.C. § 316(a)(4)).

[146] USPTO, *Changes to Implement Inter Partes Review Proceedings, Post-Grant Review Proceedings, and Transitional Program for Covered Business Method,* 77 Fed. Reg. 8680 (August 14, 2012) (final rule).

[147] 37 C.F.R. § 42.100(b).

[148] *See, e.g., In re* Cuozzo Speed Techs., LLC, 793 F.3d 1268, 1286 (Fed. Cir. 2015) ("The broadest reasonable interpretation is authorized for use in the examination of pending applications, as the applicant and the examiner interact to define the invention so as to distinguish or avoid overlap with prior art.").

[149] P.L. 112-29, § 6(a), 125 Stat. 300 (2011) (codified at 35 U.S.C. § 314(d)).

Cuozzo Speed Technologies, LLC v. Lee

Factual Background

Cuozzo Speed Technologies (Cuozzo) holds the patent at issue in this case (Cuozzo Patent). The patent's 20 claims pertain to a speedometer that displays a vehicle's current speed as well as the speed limit, thereby showing a driver when he or she is driving above the limit.[150] In September 2012, a car GPS device manufacturer, Garmin, filed a petition with the USPTO to institute IPR of the Cuozzo Patent's claims 10, 14, and 17, arguing that claim 17 was invalid for obviousness in light of three prior patents, though it was silent on the grounds for challenging claims 10 and 14.[151]

Procedural History

The USPTO agreed to review the Cuozzo Patent's claim 17, as well as claims 10 and 14.[152] The PTAB acknowledged that Garmin had not expressly identified in its IPR petition the specific grounds on which it was challenging claims 10 and 14.[153] However, "believing that 'claim 17 depends on claim 14 which depends on claim 10,' the [PTAB] reasoned that Garmin had 'implicitly' challenged claims 10 and 14 on the basis of the same prior inventions."[154] The PTAB conducted the IPR proceedings and determined that claims 10, 14, and 17 of the Cuozzo Patent were obvious in light of the patents that Garmin had cited and ordered the cancellation of those claims.[155]

Cuozzo appealed the PTAB's decision to the Federal Circuit, arguing that the USPTO had improperly instituted IPR with respect to claims 10 and 14 because the agency had found that Garmin only implicitly challenged those claims, in apparent violation of the Patent Act's requirement that IPR petitions must state "with particularity" the grounds on which the challenge for each claim is based.[156] Cuozzo also asserted that the PTAB had improperly used the "broadest reasonable interpretation" standard in construing patent claims in an IPR; instead, the company argued that the PTAB should apply the same claim construction standard used by federal courts when assessing a patent's validity ("i.e., it should have given those claims their 'ordinary meaning … as understood by a person of skill in the art.'").[157]

In February 2015, a divided panel of the Federal Circuit rejected both of Cuozzo's arguments. First, the appellate court asserted that Section 314(d) of the Patent Act precludes its review of the USPTO's decision to institute IPR.[158] The court then upheld the PTAB's use of the BRI standard in claim construction, holding that the USPTO's regulation requiring such a standard was a

[150] In re *Cuozzo Speed Techs*., 793 F.3d at 1268.

[151] *Id.* at 1272.

[152] *Id.*

[153] Cuozzo Speed Techs., LLC v. Lee, 579 U.S. ___, 136 S. Ct. 2131, 2138 (2016).

[154] *Id.*

[155] *Id.* at 2138-39.

[156] *Id.* at 2139 (citing 35 U.S.C. § 312(a)(3)).

[157] *Id.* (quoting and citing Phillips v. AWH Corp., 415 F. 3d 1303, 1314 (Fed. Cir. 2005) (en banc)).

[158] *In re* Cuozzo Speed Technologies, LLC, 793 F. 3d 1268, 1273 (Fed. Cir. 2015) (citing 35 U.S.C. § 314(d), which provides that "[t]he determination by the Director whether to institute an inter partes review under this section shall be final and nonappealable.").

reasonable exercise of the agency's rulemaking authority that had been granted by the AIA.[159] The Federal Circuit explained that by applying the BRI standard, the USPTO "reduce[s] the possibility that, after the patent is granted, the claims may be interpreted as giving broader coverage than is justified."[160] The appellate court noted that the USPTO has long applied the BRI standard in a variety of proceedings, including initial examinations, interferences, and reissue and reexamination proceedings.[161] Finally, the court observed that "[t]here is no indication that the AIA was designed to change the claim construction standard that the PTO has applied for more than 100 years. Congress is presumed to legislate against the background of the kind of longstanding, consistent existing law that is present here."[162] Thus, according to the Federal Circuit, "Congress implicitly adopted the broadest reasonable interpretation standard in enacting the AIA."[163]

In July 2015, the Federal Circuit, by a narrow vote of 6 to 5, denied Cuozzo's petition for rehearing en banc (by the full court).[164] In October 2015, Cuozzo filed a petition with the Supreme Court for a writ of certiorari to review the Federal Circuit's judgment, which the Court granted.[165]

Supreme Court's Opinion in *Cuozzo*

In an opinion authored by Justice Breyer, the Supreme Court in *Cuozzo* held that Section 314(d) of the Patent Act "bar[s] judicial review of the kind of mine-run claim at issue here, involving the Patent Office's decision to institute inter partes review," though it may not prevent courts from considering a constitutional question.[166] This conclusion was supported by six justices, with two dissenting.[167] Second, the Supreme Court unanimously ruled that Congress had given the USPTO the statutory authority to issue the regulation specifying that the PTAB apply the broadest reasonable interpretation standard in construing patent claims in an IPR proceeding.[168]

Judicial Review of USPTO's Determination Whether to Institute an IPR

The Supreme Court's majority opinion on this first question agreed with the Federal Circuit that the decision of the USPTO whether to institute an IPR is nonappealable.[169] Although recognizing the "strong presumption" in favor of judicial review, even for statutes that purport to limit or preclude review, the Court noted that the presumption can "be overcome by clear and convincing indications, drawn from specific language, specific legislative history, and inferences of intent drawn from the statutory scheme as a whole, that Congress intended to bar review."[170] The Court

[159] *Id.* at 1278-79.

[160] *Id.* at 1277 (quoting *In re* Prater, 415 F.2d 1393, 1396 (CCPA 1981).

[161] *Id.* at 1276.

[162] *Id.* at 1277.

[163] *Id.* at 1278.

[164] *In re* Cuozzo Speed Techs., LLC, 793 F.3d 1297, 1298 (Fed. Cir. 2015).

[165] Cuozzo Speed Techs., LLC v. Lee, 136 S. Ct. 890 (2016).

[166] Cuozzo Speed Techs., LLC v. Lee, 579 U.S. ___, 136 S. Ct. 2131, 2136 (2016).

[167] At the time of the issuance of *Cuozzo,* as well as on the date of this report, there is one vacant seat on the Supreme Court due to the death of Justice Antonin Scalia on February 13, 2016.

[168] *Cuozzo Speed Techs.,* 136 S. Ct. at 2136.

[169] *Id.* at 2139.

[170] *Id.* at 2140 (internal quotation marks and citations omitted).

found that this standard was satisfied in this case. In the AIA, Congress elected to make the USPTO's decision on whether an IPR should proceed "final and nonappealable"; thus, the Court's "conclusion that courts may not revisit this initial determination gives effect to this statutory command."[171]

However, the majority opinion explained that its conclusion applies to issues relating specifically to IPR proceedings and not necessarily those that involve constitutional questions, other sections of the Patent Act, or other federal statutes:

> We emphasize that our interpretation applies where the grounds for attacking the decision to institute inter partes review consist of questions that are closely tied to the application and interpretation of statutes related to the Patent Office's decision to initiate inter partes review. … This means that we 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."[172]

Justice Alito wrote a dissenting opinion to this part of the *Cuozzo* opinion, which was joined by Justice Sotomayor, in which he disagreed with the majority's view that Congress intended to shield "from all judicial scrutiny" the USPTO's compliance (or noncompliance) with statutory requirements that govern the agency's decision to institute an IPR proceeding.[173] He first observed that Section 314(d) "does not say that an institution decision is 'not subject to review,'" but rather makes such decision "nonappealable."[174] He would interpret this statutory language to "bar only an *appeal* from the institution decision itself, while allowing *review* of institution-related issues in an appeal from the Patent Office's final written decision at the end of the proceeding."[175] Under Justice Alito's interpretation of Section 314(d), a court cannot prevent an IPR proceeding from commencing (because the decision to institute IPR is "final and nonappealable"), but "the question whether it was lawful to institute review will not escape judicial scrutiny."[176] However, he then took "the Court at its word that today's opinion will not permit the Patent Office to act outside its statutory limits."[177] Nevertheless, he argued that the Court should have held that Section 314(d) "does not bar judicial review of the Patent Office's compliance with any of the limits Congress imposed on the institution of patent review proceedings,"[178] which would include the statutory condition that Cuozzo alleged was violated by Garmin in this case, i.e., Section 312(a)(3) of the Patent Act's requirement that IPR petitioners must state the grounds on which the challenge for each claim is based "with particularity".

USPTO's Authority to Require the Use of Broadest Reasonable Interpretation

Regarding the other question presented in Cuozzo's certiorari petition, a unanimous Supreme Court agreed that the Federal Circuit did not err in holding that the Patent Act grants the USPTO the legal authority to require the PTAB to apply the BRI standard to claim construction in IPR

[171] *Id.* at 2141 (citing 35 U.S.C. § 314(d)).

[172] *Id.*

[173] *Id.* at 2149 (Alito, J., dissenting).

[174] *Id.* at 2151.

[175] *Id.* (emphasis in original).

[176] *Id.*

[177] *Id.* at 2155 (internal quotation marks and citation omitted).

[178] *Id.*

proceedings.[179] The Court first noted that no part of the IPR statute "unambiguously directs the agency to use" the BRI standard or the standard used by federal courts, which construe the claims in an issued patent according to their "plain and ordinary meaning".[180] Because the statute leaves a "gap" or is "ambiguous" on this matter, courts "typically interpret it as granting the agency leeway to enact rules that are reasonable in light of the text, nature, and purpose of the statute."[181] In addition, the Court observed that Section 316(a)(4) of the Patent Act expressly delegated rulemaking authority to the USPTO to issue "regulations ... establishing and governing inter partes review under this chapter," which would include the power to promulgate a rule filling that gap in the IPR statute with the BRI standard.[182] Furthermore, the Court could not find anything in the statutory language, its purpose, or its legislative history to "suggest that Congress considered what standard the agency should apply when reviewing a patent claim in inter partes review."[183]

The Court then held that the BRI regulation is a reasonable exercise of the USPTO's rulemaking authority, for several reasons. First, in the Court's view, applying a BRI standard to claim construction helps to protect the public interest:

> Because an examiner's (or re-examiner's) use of the broadest reasonable construction standard increases the possibility that the examiner will find the claim too broad (and deny it), use of that standard encourages the applicant to draft narrowly. This helps ensure precision while avoiding overly broad claims, and thereby helps prevent a patent from tying up too much knowledge, while helping members of the public draw useful information from the disclosed invention and better understand the lawful limits of the claim.[184]

Second, the Court explained that the USPTO has used the BRI standard for over a century in its administrative proceedings, and thus this precedent supports the reasonableness of its regulation in this case.[185] The Court stated that "we cannot find unreasonable the Patent Office's decision to prefer a degree of inconsistency in the standards used between the courts and the agency, rather than among agency proceedings."[186]

Finally, the Court downplayed Cuozzo's concern that the use of different claim construction standards by the USPTO and the courts to interpret the same patent claims may lead to inconsistent and conflicting results, such that a court could uphold the validity of a patent claim while the agency may cancel that same claim in an IPR proceeding:

> This possibility … has long been present in our patent system, which provides different tracks—one in the Patent Office and one in the courts—for the review and adjudication of patent claims. As we have explained above, inter partes review imposes a different burden of proof on the challenger. These different evidentiary burdens mean that the possibility of inconsistent results is inherent to Congress' regulatory design.[187]

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[179] *Id.* at 2142.

[180] *Id.*

[181] *Id.* (citing United States v. Mead Corp., 533 U.S. 218, 229 (2001) and Chevron, U.S.A., Inc. v. NRDC, Inc., 467 U.S. 837, 843 (1984)).

[182] *Id.*

[183] *Id.* at 2144.

[184] *Id.* at 2145 (citation omitted).

[185] *Id.*

[186] *Id.* at 2146.

[187] *Id.*

Reactions to and Potential Impact of *Cuozzo*

Some observers have called *Cuozzo* a victory for companies, particularly those in the technology industry, that want to utilize the faster and cheaper IPR proceedings to invalidate "bad patents."[188] On the other hand, some believe that *Cuozzo* leaves in place a process that may negatively impact companies that value strong patent protections, such as those in the pharmaceutical drug and biotechnology industries.[189]

It remains to be seen whether Congress will legislatively "overrule" parts of the *Cuozzo* opinion. Legislation in the 114th Congress, the Innovation Act and the PATENT Act, would require that the PTAB, in IPR proceedings, use the same claim construction standard that is applied by federal courts; that is, the PTAB would need to construe a patent claim "in accordance with the ordinary and customary meaning of such claim as understood by one of ordinary skill in the art and the prosecution history pertaining to the patent"[190] rather than use the BRI standard. However, this legislation has not been enacted into law.

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[188] *See, e.g.,* Brent Kendall, *Supreme Court Upholds Rules That Have Been Friendly to Patent Challenges,* WALL ST. J. (Jun. 20, 2016, 7:32 PM), http://www.wsj.com/articles/supreme-court-upholds-rules-that-have-been-friendly-to-patent-challenges-1466436451; Jeff John Roberts, *Tech Industry Wins Big in Supreme Court Patent Ruling,* FORTUNE (Jun. 20, 2016, 1:19 PM), http://fortune.com/2016/06/20/tech-industry-wins-big-in-supreme-court-patent-ruling/.

[189] *Id.*

[190] The Innovation Act, H.R. 9, 114th Cong. § 9 (2015), *adding new* 35 U.S.C. § 316(a)(14)(A); Protecting American Talent and Entrepreneurship Act (PATENT) Act, S. 1137 (as reported), 114th Cong. § 11(a)(4)(A)(vii) (2015).