

Federal Circuit Patent Bulletin: *Microsoft Corp. v. Proxyconn, Inc.*

June 17, 2015

"[We cannot] say that the Board's interpretation of [37 C.F.R.] § 42.20(c) . . . requiring the patentee to 'show patentable distinction [of the substitute claims] over the prior art of record,' [in a motion to amend the claims during inter partes review] is plainly erroneous or inconsistent with the regulation or governing statutes."

On June 16, 2015, in *Microsoft Corp. v. Proxyconn, Inc.*, the U.S. Court of Appeals for the Federal Circuit (Prost,* Lourie, Gilstrap) affirmed-in-part, reversed-in-part, vacated-in-part, and remanded the U.S. Patent and Trademark Office (PTO) Patent Trial and Appeal Board decision in an inter partes review that U.S. Patent No. 6,757,717, which related to a system for increasing the speed of data access in a packet-switched network, was invalid as anticipated under 35 U.S.C. § 102 or obvious under 35 U.S.C. § 103. The Federal Circuit stated:

Through enactment of the America Invents Act ("AIA"), Congress created the new IPR proceeding for the purpose of "providing quick and cost effective alternatives to litigation." The AIA conveys certain authority to the PTO to "prescribe regulations" "governing inter partes review" and to "set[] forth standards and procedures for allowing the patent owner to move to amend the patent." With respect to amendments in particular, the statute provides that "the patent owner may file 1 motion to amend the patent" and that such amendment "may not enlarge the scope of the claims of the patent or introduce new matter." The statute also provides that the Director shall, upon final determination, "incorporate[] in the patent . . . any new or amended claim determined to be patentable."

Relying on the authority granted by the AIA, the PTO has promulgated two regulations that are relevant to this appeal. First is 37 C.F.R. § 42.20, which applies generally to motions practice. Section 42.20 requires that any "[r]elief, other than a petition requesting the institution of a trial, must be requested in the form of a motion" and that "[t]he moving party has the burden of proof to establish that it is entitled to the requested relief." Second is 37 C.F.R. § 42.121, which imposes specific requirements on the amendment process. Section 42.121 (a)(2) provides that: "A motion to amend may be denied where: (i) The amendment does not respond to a ground of unpatentability involved in the trial; or (ii) The amendment seeks to enlarge the scope of the claims of the patent or introduce new subject matter."

In addition to these two regulations, a six-member panel of the Board has also issued a decision [holding that] A patent owner should identify specifically the feature or features added to each substitute claim, as compared to the challenged claim it replaces, and come forward with technical facts and reasoning about those feature(s), including construction of new claim terms, sufficient to persuade the Board that the proposed substitute claim is patentable over the prior art of record, and over prior art not of record but known to the patent owner. The burden is not on the petitioner to show unpatentability, but on the patent owner to show patentable distinction over the prior art of record and also prior art known to the patent owner. Some representation should be made about the specific technical disclosure of the closest prior art known to the patent owner, and not just a conclusory remark that no prior art known to the patent owner renders obvious the proposed substitute claims.

A showing of patentable distinction can rely on declaration testimony of a technical expert about the significance and usefulness of the feature(s) added by the proposed substitute claim, from the perspective of one with ordinary skill in the art, and also on the level of ordinary skill, in terms of ordinary creativity and the basic skill set. A mere conclusory statement by counsel, in the motion to amend, to the effect that one or more added features are not described in any prior art, and would not have been suggested or rendered obvious by prior art, is on its face inadequate. . . . According to the Board's operating procedures, informative decisions are "not binding authority," but are designated as informative in order to provide "Board norms on recurring issues," "guidance on issues of first impression," and "guidance on Board rules and practices." . . .

According to the Director, it is permissible for the PTO to use adjudicative Board decisions . . . rather than traditional notice and comment rule-making, to set forth all the conditions that a patentee must meet in order to satisfy its burden of amendment under § 42.20(c). Some question the wisdom of the PTO's approach. 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." 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.

Nor can we say that the Board's interpretation of § 42.20(c) . . . requiring the patentee to "show patentable distinction [of the substitute claims] over the prior art of record," is plainly erroneous or inconsistent with the regulation or governing statutes. . . . First, nothing in the statute or regulations precludes the Board from rejecting a substitute claim on the basis of prior art that is of record, but was not cited against the original claim in the institution decision. Second, the very nature of IPRs makes the Board's interpretation appropriate. During IPRs, once the PTO grants a patentee's motion to amend, the substituted claims are not subject to

further examination. Moreover, the petitioner may choose not to challenge the patentability of substitute claims if, for example, the amendments narrowed the claims such that the petitioner no longer faces a risk of infringement. If the patentee were not required to establish patentability of substitute claims over the prior art of record, an amended patent could issue despite the PTO having before it prior art that undermines patentability. Such a result would defeat Congress's purpose in creating IPR as part of "a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs."