

## REPORT

**U.S. SUPREME COURT ISSUES TWO SIGNIFICANT DECISIONS REGARDING AIA TRIAL PROCEEDINGS****May 25, 2018**

On April 24, 2018, the U.S. Supreme Court issued decisions in two cases regarding *inter partes* review (IPR) proceedings before the USPTO Patent Trial and Appeal Board (PTAB).

In *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, 584 U.S. \_ (2018), addressing whether the IPR proceeding violates Article III and/or the Seventh Amendment of the U.S. Constitution, the Court held that IPR does not violate either Article III or the Seventh Amendment.

In *SAS Institute Inc. v. Iancu*, 584 U.S. \_ (2018), addressing whether an IPR may be limited to less than all of the challenged claims, the Court held that all of the challenged claims in an IPR must be reviewed.

**I. Background**

Sections 311-319 of the 2012 Leahy-Smith America Invents Act (AIA) establish IPR proceedings, which authorize the USPTO to reconsider and cancel an already-issued patent claim that is determined to fail the novelty or non-obviousness requirements of patentability under 35 U.S.C. §§102 and 103. Upon institution of an IPR proceeding by the PTAB, the petitioner and the patent owner participate in an administrative proceeding that includes limited discovery, briefing through affidavits, declarations, written memoranda, and an opportunity to conduct an oral hearing before the

PTAB. A final written decision is issued by the PTAB determining the patentability of the challenged claims, which is subject to Federal Circuit review.

Oil States sued Greene's Energy in federal district court for infringement of a patent relating to wellhead equipment for hydraulic fracturing. Greene's Energy challenged the patent's validity in the district court and also petitioned the USPTO for an IPR. The district court issued a claim construction favoring Oil States and foreclosing Greene's Energy's invalidity arguments based on anticipation. However, several months later the PTAB issued a decision concluding that Oil States' claims were unpatentable in view of the same prior art. Oil States appealed to the Federal Circuit challenging the PTAB's decision and the constitutionality of IPR proceedings. The Federal Circuit rejected Oil States' constitutional arguments and affirmed the PTAB's decision. The Supreme Court granted *certiorari* in order to address the constitutional challenges to IPR proceedings.

SAS challenged the claims of a software patent owned by ComplementSoft in an IPR. The USPTO Director instituted review on some of the challenged claims and denied review on the remainder of the claims. The PTAB's final written decision addressed only the claims for which the Director instituted review, and found the instituted claims unpatentable. SAS appealed

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to the Federal Circuit arguing that 35 U.S.C. §318(a) requires the PTAB to decide the patentability of every claim challenged in the petition. The Federal Circuit rejected that argument, and the Supreme Court granted *certiorari* in order to address the USPTO's procedure of "partial institution" of a petition for IPR.

## II. Supreme Court Decisions

### A. Oil States

In *Oil States v. Greene's Energy*, a majority of the Supreme Court agreed with the Federal Circuit and held that IPR proceedings do not violate either Article III or the Seventh Amendment of the U.S. Constitution. The majority first addressed the constitutionality of IPR proceedings in view of Article III.

Article III vests the "judicial power" of the U.S. "in one supreme Court, and in such inferior Courts as the Congress may from time to time ordain and establish." In this regard, the majority noted that prior case precedents have distinguished between "public rights" and "private rights" in determining whether a proceeding is an exercise of "judicial power" under Article III that can be exercised only by the Federal Courts. Congress has "significant latitude to assign adjudication of public rights to entities other than Article III courts," which is known as the public-rights doctrine.

Although Supreme Court precedent is not "entirely consistent," the public rights doctrine generally applies to matters "arising between the government and persons subject to its authority in connection with the performance of the constitutional functions of the executive or legislative departments." The majority held that IPR proceedings clearly involve a public right, *i.e.*, "reconsideration of the Government's decision to grant a public franchise." In this regard, the majority reasoned that the grant of a

patent is a "public right" at least because: (i) it is a matter between the public, who are the grantors, and the patentee, which "take[s] from the public rights of immense value, and bestow[s] them upon the patentee"; and (ii) granting patents is a constitutional function "that can be carried out by the executive or legislative departments without judicial determination." The majority then reasoned that IPR proceedings involve the same basic matter as the grant of a patent because an IPR is "a second look" or "reconsideration" of the earlier administrative grant of a patent.

Oil States and the dissent argued that prior Supreme Court precedent recognized patent rights as the "private property of the patentee," and thus once a patent is granted, this private property right can only be revoked by an Article III court. However, the majority rejected this argument, stating that patents convey only a specific form of property right, *i.e.*, a public franchise that gives an inventor the right to exclude others from using the invention, subject to the provisions of the AIA, including IPR proceedings. The majority afforded little weight to the cases cited by Oil States and the dissent, because the cited cases were decided under the Patent Act of 1870, which did not include any provision for post-issuance administrative review.

The majority also rejected Oil States' argument that IPR proceedings constitute an unconstitutional exercise of Article III judicial power by an administrative agency. Oil States argued that IPR proceedings employ essentially the same procedures as an Article III court, such as motion practice, discovery, depositions, cross-examination of witnesses, introduction of evidence, objections based on the Federal Rules of Evidence, and an adversarial hearing. In rejecting this argument, the majority indicated that the mere fact that an agency uses court-like procedures does not necessarily mean it is exercising Article III judicial power. For example, the majority noted that although IPR

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proceedings include some of the features of adversarial litigation, IPR proceedings do not make any binding determination regarding the liability of one party to another party under the law.

Finally, the majority quickly dispensed of Oil States' argument that IPR proceedings violate the Seventh Amendment of the U.S. Constitution. The Seventh Amendment preserves the "right of trial by jury" in "[s]uits at common law, where the value in controversy shall exceed twenty dollars." However, Supreme Court precedent establishes that "when Congress properly assigns a matter to adjudication in a non-Article III tribunal, the Seventh Amendment poses no independent bar to the adjudication of that action by a nonjury factfinder."

The dissent, authored by Justice Gorsuch and joined by Chief Justice Roberts, argued that "the only authority competent to set a patent aside, or to annul it, or to correct it for any reason whatever, is vested in the courts of the United States, and not in the department which issued the patent." The dissent argued that Supreme Court precedent establishes that when a patent is issued by the USPTO, "it has passed beyond the control and jurisdiction of that office, and is not subject to be revoked or cancelled by the President, or any other officer of the U.S. Government." In particular, the dissent argued that Supreme Court precedent establishes that a patent becomes the property of the patentee, and as such, is entitled to the same legal protection as other property. Thus, allowing an Executive office such as the USPTO to withdraw a patent "would be to deprive the applicant of his property without due process of law, and would be in fact an invasion of the judicial branch of the government by the executive." As noted previously, however, the majority gave little weight to this prior precedent, indicating that the cases "are best read as a description of the statutory scheme that existed at the time," and "they do not resolve Congress's

authority under the Constitution to establish a different scheme."

## B. SAS Institute

Upon upholding the constitutionality of IPR proceedings, the Supreme Court then reviewed the USPTO's implementation of IPR under the AIA in *SAS Institute v. Iancu*. In *SAS*, a narrow majority of the Supreme Court rejected the argument that the USPTO Director retains the discretion to institute an IPR on only some of the challenged claims and to deny review of other claims. The majority opinion, authored by Justice Gorsuch, reasoned that a plain reading of 35 U.S.C. §318(a) instructs that "[i]f an *inter partes* review is instituted and not dismissed under this chapter, the [PTAB] shall issue a final written decision with respect to the patentability of *any patent claim challenged by the petitioner.*" (emphasis added). The majority indicated that in reading the statute, "the word 'shall' generally imposes a nondiscretionary duty," and "any" challenged claim means "every" challenged claim. The majority also noted that the statute does not include any language that leaves the severance of claims to be reviewed to the discretion of the USPTO. Instead, the statute only gives the Director the choice of "whether" to institute an IPR.

The Director argued that 35 U.S.C. §314(a) only authorizes him to institute IPR if he determines that "there is a reasonable likelihood" the petitioner will prevail on at least one of the claims challenged in the petition. The Director argued that this analysis requires him to evaluate claims individually, and thereby institute review on a claim-by-claim basis. The majority rejected this argument and found that §314(a) merely requires the Director to decide whether the petitioner has a reasonable likelihood of success on at least one claim. When this threshold inquiry is satisfied, the Court found that §314(a) authorizes the Director to institute IPR without

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inquiring into whether the petitioner is likely to prevail on any additional claims.

The majority emphasized that while the Director has the discretion on *whether* to institute review under §314(a), the Director does not have the discretion regarding "*what* claims that review will encompass." In this regard, the majority indicated that the statutory language confirms that "the petitioner's petition, not the Director's discretion, is supposed to guide the life of the litigation." The majority also compared §314 to the statutory language for *ex parte* reexamination. The majority noted that the statute expressly allows the Director to institute [*ex parte* reexamination] proceedings on a claim-by-claim, ground-by-ground basis. Thus, if Congress intended the same for IPR, it would have used a similar "known and readily available approach."

The dissent argued that the majority's interpretation of §318(a) erroneously assumes the language "any patent claim challenged by the petitioner" to mean "any patent claim challenged by the petitioner *in the petitioner's original petition*." In other words, the statutory language is ambiguous as to whether §318(a) refers to claims challenged initially in the petition, or claims challenged upon institution of the trial. Thus, the dissent argued that the statute has "a gap" in the statutory language, and under *Chevron*, the agency (*i.e.*, the USPTO) should have leeway to enact rules that are reasonable in light of the text, nature, and purpose of the statute. In *Chevron*, the Supreme Court set forth the legal test for determining whether to grant deference to a government agency's interpretation of a statute. In particular, if a statute is silent or ambiguous with respect to a specific issue, the question is whether the agency's answer is based on a permissible construction of the statute. Accordingly, the dissent stated that because there is "a gap" in the statutory language, the USPTO possesses the gap-filing authority under *Chevron* to enact reasonable regulations that fill the gap.

The majority, however, determined that "the statutory provisions ... deliver unmistakable commands," leaving no need for any gap filling, let alone "a wholly unmentioned 'partial institution' power that lets the Director select only some challenged claims."

### III. Effects of the Decisions

*Oil States* reinforces the constitutionality of IPR proceedings, and thus IPR proceedings will remain available as a popular method to challenge the validity of patents. However, *SAS* significantly changes the PTAB's prior practice of instituting IPR proceedings on only some of the challenged claims in a petition. *SAS* now requires the PTAB to institute an IPR proceeding on all of the claims challenged in the petition or none. By implication, the *SAS* decision applies equally to the other AIA trial proceedings (post grant review (PGR) and covered business method review (CBM)).

On April 26, 2018, the PTAB issued guidance on the impact of the *SAS* decision and the review procedures that will be followed in AIA trial proceedings. Under this new guidance, if the PTAB decides to IPR, PGR, or CBM proceedings, the PTAB will institute on all challenged claims and challenges raised in the petition. For currently pending trials in which the PTAB has already instituted trial on only *some* of all the challenges raised in the petition, the three-judge panel may issue an order supplementing the institution decision to institute on all claims and all challenges raised in the petition. Upon receipt of an order supplementing the institution decision, the petitioner and patent owner shall meet and confer to discuss the need for additional briefing and/or any other adjustments to the schedule for additional un-reviewed issues. The parties may also agree to affirmatively waive additional briefing or schedule changes. The guidance also permits cases near the end of the 12-month statutory deadline to be extended, if necessary.

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Accordingly, the *SAS* decision puts an end to "partial institution" decisions that result in final written decisions only on the instituted claims. Instead, if the PTAB determines that a petitioner has a reasonable likelihood of prevailing with respect to at least one challenged claim (IPR), or establishes it is more likely than not that at least one claim is unpatentable (PGR, CBM), the PTAB must institute trial on all claims challenged in the petition and issue a final written decision on all challenged claims. Thus, one possible effect is that the PTAB will limit its analysis at the instituting phase, since it now is an "all or nothing" decision once the PTAB determines that there is a reasonable likelihood that one claim will be found unpatentable.

It is also possible that more petitions could be denied without the option of "partial institution." Because the decision to institute an AIA trial proceeding is not reviewable under the *Cuozzo* decision, the PTAB may simply deny more petitions if it finds some of the claim challenges to be unsupported. This could force petitioners to refile with fewer challenges to fewer claims, or be more selective in determining which claims to challenge and which grounds of unpatentability to focus on in the petition.

*SAS* should also have favorable implications for patent owners with regard to statutory estoppel. District courts are currently split on the scope of IPR (and PGR by implication) statutory estoppel. Some have taken a narrow view that petitioners are not estopped

from raising a ground of unpatentability in district court that was in the petition, but on which the PTAB did not institute. Other courts have taken a broader view that petitioners are estopped from raising any ground of unpatentability raised in the petition, regardless of whether or not it was instituted. Since the PTAB can no longer use "partial institution," and since the current PTAB guidance indicates that it will institute on all challenges raised in the petition, courts should no longer struggle with whether a petitioner is estopped from raising non-instituted grounds for unpatentability.

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