

CLIENT ALERT

# U.S. Supreme Court Holds that *Inter Partes* Reviews Are Constitutional, but Patent Office Must Address Every Claim in the Petition

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## AUTHORS

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On April 24, 2018, the U.S. Supreme Court decided two patent cases involving *inter partes* review (“IPR”) proceedings that were established under the America Invents Act (“AIA”). In *Oil States Energy Services, LLC v. Greene’s Energy Group, LLC*,<sup>1</sup> the Court held that IPR proceedings do not violate Article III or the Seventh Amendment of the Constitution. In *SAS Institute Inc. v. Iancu*,<sup>2</sup> the Court held that when the Patent Trial and Appeal Board (“the Board”) institutes an IPR, it must decide the patentability of *all* of the claims the petitioner has challenged. Thus, although *Oil States* maintains the status quo by allowing IPR proceedings to continue, SAS will change the scope of proceedings that are instituted. The United States Patent and Trademark Office (“PTO”) has already issued a brief guidance addressing how it will implement SAS for pending IPRs, such as by giving parties additional briefing or extending deadlines.

### I. *Oil States*: IPR Proceedings Are Constitutional

In a 7-2 decision authored by Justice Thomas, the Court held that an IPR does not violate Article III or the Seventh Amendment. The decision was narrow as it addressed only the constitutionality of IPRs under specific issues raised by

<sup>1</sup> *Oil States Energy Services, LLC v. Greene’s Energy Group, LLC*, No. 16-712, 584 U.S. \_\_\_ (April 24, 2018).

<sup>2</sup> *SAS Institute Inc. v. Iancu*, No. 16-969, 584 U. S. \_\_\_ (April 24, 2018)

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Oil States and warned that it should not be construed to suggest that “patents are not property for the purposes of the Due Process Clause or the Takings Clause.”<sup>3</sup>

In 2012, Oil States sued Greene’s Energy for infringement and Greene’s Energy responded by challenging the validity of the asserted patent in district court and in a separate IPR petition. The Board instituted the IPR and issued a final written decision holding that the claims were unpatentable. On appeal to the Federal Circuit, Oil States challenged not only the Board’s substantive ruling but also the constitutionality of the IPR proceeding under Article III. While the case was pending, the Federal Circuit issued an opinion in another case, rejecting the same constitutionality arguments, then affirmed the Board’s decision that the claims of the patent were unpatentable. The Supreme Court granted certiorari to determine the constitutionality of IPRs under Article III and the Seventh Amendment.

The argument before the Court was whether patents are “public rights,” which can be adjudicated by non-Article III Courts, or “private rights,” which must be decided by a court. Without determining the exact scope of the public/private rights divide, the Court held that an IPR “falls squarely within the public rights doctrine.”<sup>4</sup> The Court explained that patents are “public franchises,” i.e., matters involving public rights between “the government and others, which from their nature do not require judicial determination and yet are susceptible of it.”<sup>5</sup> The Court compared the IPR to the grant of a patent, a task carried out by the government “without judicial determination.”<sup>6</sup> An IPR is a reconsideration of the government’s decision to grant a patent, “a second look at an earlier administrative grant of a patent.”<sup>7</sup> The Court noted that even prior to the AIA, the PTO had the authority to conduct such a reconsideration, citing the creation of *ex parte* reexaminations proceedings in 1980, and *inter partes* reexaminations in 1999 (now replaced by IPRs).<sup>8</sup> Furthermore, the fact that the IPR occurs after the issue of a patent and has some procedures that “look like” trial proceedings (such as motion practice, discovery, depositions, and hearings) did not convince the Court that the IPR was distinct from the PTO’s determination of a patent’s validity prior to granting a patent.<sup>9</sup> Lastly, the Court decided that an IPR does not violate the Seventh Amendment because that protection cannot be invoked when Congress “properly assigns a matter to adjudication in a non-Article III tribunal.”<sup>10</sup> Because the majority of the Court decided that IPR does not violate Article III, it cannot violate the Seventh Amendment.

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<sup>3</sup> *Oil States*, slip op. at 3.

<sup>4</sup> *Id.*, slip op. 6.

<sup>5</sup> *Id.*

<sup>6</sup> *Id.* at 8.

<sup>7</sup> *Cuozzo Speed Technologies, LLC v. Lee*, 136 S.Ct. 2131, 2144 (2016).

<sup>8</sup> *Oil States*, slip op. at 2.

<sup>9</sup> *Id.*, slip op. at 9, 15.

<sup>10</sup> *Id.*, slip op. at 17.

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### II. SAS: Patent Office Cannot Conduct “Partial Institution” of IPRs

In *SAS*, the Court had to decide whether, upon the institution of an IPR, the Board must decide the patentability of all of the claims the petitioner challenged. In a 5-4 decision, authored by Justice Gorsuch, joined by Justices Roberts, Alito, Kennedy, and Thomas, the Court held that when the Board institutes an IPR, it must decide the patentability of all challenged claims. Justice Breyer filed a dissenting opinion, in which Justices Ginsburg, Sotomayor, and Kagan (except as to Part III-A) joined.

*SAS* petitioned for an IPR of ComplementSoft’s software patent and alleged that all 16 of the patent’s claims were unpatentable. The Board concluded that *SAS* was likely to succeed with respect to at least one of the claims and instituted the IPR on claims 1 and 3–10 only. The Board determined that claims 1, 3, and 5–10 were unpatentable, and upheld the validity of claim 4, but did not address the remaining claims. *SAS* appealed to the Federal Circuit and argued that 35 U.S.C. § 318(a) required the Board to decide the patentability of every claim *SAS* challenged. The Federal Circuit rejected this argument and the Supreme Court granted certiorari.

The central issue before the Court was the interpretation of the statutory provision governing Final Written Decisions. The majority focused on the plain reading of § 318(a) and concluded that it was clear and thus the case was resolved:

(a) Final Written Decision. — If an inter partes review is instituted and not dismissed under this chapter, the Patent Trial and Appeal Board *shall* issue a final written decision with respect to the patentability of *any* patent claim challenged by the petitioner and any new claim added under section 316(d).<sup>11</sup>

According to the Court, when § 318(a) says the Board’s final written decision “‘shall’ resolve the patentability of ‘any patent claim challenged by the petitioner,’ it means the Board *must* address *every* claim the petitioner has challenged.”<sup>12</sup> The Court stated that Congress’s language in the statute clearly intended for the petitioner, not the PTO Director, to define the scope of the petition.<sup>13</sup>

The PTO Director argued that the statute was ambiguous and therefore, under *Chevron*, the PTO’s interpretation is entitled to deference. The Court concluded that, even under *Chevron*, after applying all tools of interpretation, the statute was not ambiguous and does not give the PTO Director authority to institute an IPR on only some of the challenged claims in the petition; it requires the PTO Director to address every claim the petitioner presents for review.<sup>14</sup>

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<sup>11</sup> 35 U.S.C. § 318(a) (emphasis added).

<sup>12</sup> *SAS Institute*, slip op. at 5.

<sup>13</sup> *Id.*, slip op. at 9.

<sup>14</sup> *Id.*, slip op. at 11-12.

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In his dissent, Justice Breyer disagreed by stating that § 318(a) was ambiguous, and under *Chevron*, the Director rightfully interpreted the statute as allowing him to institute an IPR on any claim that the Petitioner showed was more likely than not to be unpatentable.<sup>15</sup> Justice Ginsburg also added a separate, short dissent focusing on the practicalities of the Court's decision. She argued that since the Board has the power to simply deny a petition, the statute should not be read "to preclude the Board's more rational way to weed out insubstantial challenges" and that Congress could not have wanted "the Board to spend its time so uselessly."<sup>16</sup>

### III. Impact of These Decisions

It appears that the impact of *Oil States* on the status quo will be minimal. Now that the Court has upheld the constitutionality of IPR proceedings on the grounds raised by *Oil States*, it has denied certiorari in several other pending cases raising the same challenges.<sup>17</sup> However, the Court has not yet entered an order in *PNC Bank National Association v. Secure Access, LLC*, which addresses covered business method reviews, and thus that case may still be up for consideration.<sup>18</sup>

The impact of the *SAS* decision may be more significant at the Board and in the courts. On April 26, the Board issued a Guidance on its operations reflecting the change in the scope of an IPR institution.<sup>19</sup> Most importantly, the Board stated that future petitions will be instituted as to all claims or as to none. In pending IPRs instituted only on some of the challenges raised in the petition, the Guidance states that the Board may decide to retroactively issue an order instituting on all challenges brought up in the initial petition. If such an order is issued, the parties should meet and decide whether additional briefing and scheduling order changes are necessary or waived in accordance with the Board's instructions. Alternatively, the Board could *sua sponte* decide whether changes in the scheduling order are necessary to address the challenges newly added to the IPR. Additionally, in cases that are near a final written decision, the Board may extend the 12-month statutory deadline.

The *SAS* case may impact broader IP strategies as well, including parallel district court litigation. For example, if a district court is asked to stay a case pending an IPR, it may be more likely to do so when an IPR is addressing all challenged claims. Also, when deciding which claim to challenge in an IPR, a petitioner may want to consider the estoppel of 35 U.S.C. § 315(e). Because the issuance of a Final Written Decision can trigger estoppel, a petitioner may decide to

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<sup>15</sup> *Id.*, slip op. at 9 (Breyer, J., dissenting).

<sup>16</sup> *Id.*, slip op. at 1 (Ginsburg, J., dissenting).

<sup>17</sup> See, e.g., *Affinity Labs of Texas, LLC v. Iancu*, No. 17-117, 17-232, and 17-233; *Affinity Labs of Texas, LLC v. Samsung Electronics Co., Ltd., et al.*, No. 17-116; *KIP CR P1 LP v. Oracle Corporation, et al.*, No. 17-708.

<sup>18</sup> In *PNC Bank National Association v. Secure Access, LLC*, the issue raised before the Supreme Court is whether the statutory definition of a covered business method review requires that the patent at issue has a claim that contains a financial activity element.

<sup>19</sup> USPTO Guidance on the Impact of *SAS* on AIA Trial Proceedings, April 26, 2018, available at <https://www.uspto.gov/patents-application-process/patent-trial-and-appeal-board/trials/guidance-impact-sas-aia-trial>.

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challenge less than all claims in the petition, rather than getting a possible adverse Final Written Decision on some of its weaker invalidity arguments. On the other hand, patent owners responding to an initial petition may focus their preliminary responses on petitioners' challenges of the broadest claims, rather than just attempting to eliminate a subset of claims from the IPR.

If you have any questions regarding this client alert, please contact the following attorneys or the attorney with whom you regularly work.

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