

Supreme Court Rulings Increase the PTAB's Importance

***Oil States* preserved the PTAB, and *SAS Institute* makes it a more important venue for patentability challenges.**

Key Points:

- IPR and other post-grant proceedings before the PTAB will continue.
- However, the PTAB may no longer decide the patentability of only some of the challenged claims; it must either review all or none of them.
- This all-or-none requirement will likely affect how the PTAB allocates resources by shifting emphasis from the Institution Decision to the Final Written Decision, while requiring petitioners to put more thought into their petitions.

In *Oil States Energy Services v. Greene's Energy Group*,¹ the United States Supreme Court maintained the status quo. The Court held that the Inter Partes Review (IPR) statute does not violate Article III or the Seventh Amendment right to a jury trial. A patent represents a public right created by statute that may be extinguished by the same granting agency.

In *SAS Institute Inc. v. Iancu*,² however, the Supreme Court reversed the Federal Circuit, ruling that the decision whether to institute the IPR is "binary." The Patent Trial & Appeal Board (PTAB) can no longer pick and choose which patent claims to review.

***Oil States*: Business as Usual at the PTAB, With a Caveat**

The *Oil States* decision drew the most attention because it had the potential to end IPRs altogether. In that respect, the decision is a non-event because the Supreme Court allowed IPRs (and the other America Invents Act [AIA] proceedings) to proceed as before.

Oil States may slightly increase the popularity of the PTAB as a venue for litigating patent validity because at least some potential petitioners likely refrained from filing IPRs while their constitutionality was being reviewed.

The Supreme Court, however, provided a caveat as to its holding. Justice Thomas' 7-2 majority opinion emphasized the "narrowness of [its] holding," stating that it "addressed only the precise constitutional challenges" before the Court. The Court explained that patents are a specific form of a property right — a public franchise, which does not require Article III adjudication. An IPR is the agency's permissible

reconsideration of its decision to grant that franchise, which does not raise any Article III or Seventh Amendment issues. Nonetheless, patents are still property for purposes of the Due Process Clause and the Takings Clause, and the Court expressly stated that it did not rule out retroactivity and takings challenges to the AIA proceedings.

Justice Breyer, with Justices Ginsburg and Sotomayor, joined the majority opinion in full and added a one-paragraph concurrence. In their view, an agency may also adjudicate *private* rights in some situations. In contrast, Justice Gorsuch, joined by the Chief Justice, wrote in dissent that an Article III court is required to adjudicate the validity of a patent for an invention for the same reasons an Article III court is required to extinguish a patent for land.

SAS Institute: More Power to the PTAB

With a few notable exceptions,³ the *SAS Institute* case was overshadowed by *Oil States* and drew little attention of its own until now. *SAS Institute* will, however, have long-lasting implications on PTAB proceedings beyond its immediate holding. *SAS Institute* will increase the scope of the IPR estoppel,⁴ the odds of obtaining a stay, the emphasis on well-crafted petitions, and the PTAB's prominence as a central venue for litigating patent validity.

Before this decision, the PTAB would often issue a long, detailed institution decision, picking and choosing which of the challenged patent claims to review. For example, the PTAB might decide to institute review of only some of the claims challenged in a petition, explaining that the petitioner demonstrated a likelihood of prevailing as to those claims, but not others. The IPR then proceeded only on the instituted claims. While the patent owner might be pleased that its non-instituted patent claims survived the IPR process, they were not part of the final decision and therefore were not protected by the IPR estoppel. The petitioner/defendant therefore received a “do-over” opportunity. The petitioner/defendant was free to argue in district court that the non-instituted claims are invalid under *any* invalidity theory, including ones it raised or reasonably could have raised in its petition.

Such partial institutions were common. Although statistics regarding the frequency and extent of partial institutions are hard to find, Latham & Watkins has calculated from the PTO's statistics that about 1.7 claims are denied review per instituted IPR on average, which includes only 13 or 14 instituted claims.⁵

The Supreme Court rejected this partial-institution practice. Writing for the 5-4 majority, Justice Gorsuch explained that partial institution is precluded by the plain language of the IPR statute. The US Patent and Trademark Office argued, however, that the Court lacked the power to decide the issue because its institution decisions are not appealable under the statute. The Court, however, concluded that the PTAB's practice fell within *Cuozzo's* “shenanigans” exception because “the Director exceeded his statutory authority by limiting the review to fewer than all of the claims SAS challenged.”⁶ Justice Breyer, joined by Justices Ginsburg, Sotomayor, and Kagan,⁷ disagreed. They would have found the statute ambiguous and deferred to the agency.

By fully granting (or completely denying) institution as required by *SAS Institute*, the PTAB will now function more as the petitioner/defendant's *alternative* choice of venue for validity. When it partially instituted a petition, the PTAB acted as a *supplemental* venue for validity because the parties were forced to endure an IPR and also address the validity of the non-instituted claims again in the district court.

In addition, fully instituted petitions may increase the likelihood of obtaining a stay of concurrent district-court litigation. The district court is now assured that the PTAB will address all of the challenged claims while the district court action is stayed and that IPR estoppel will apply to all of the challenged claims.

Partial institution served to weaken the arguments for stay since it provided an opportunity for dual-path litigation (on the non-instituted claims) and IPR proceeding (on the instituted claims). Now that the petitioner/defendant has more control over the choice of venue to litigate validity, district courts may be more willing to grant stays to enable IPR estoppel to simplify the arguments on all challenged claims.

The PTAB's Toolbox for Implementing IPRs Without Partial Institutions

The Patent Office contended that it needed partial institutions to avoid being overburdened by petitions challenging too many claims. The PTAB, however, will likely use the tools it has available to manage its workload while still fully deciding petitions.

First, the Patent Office has reasonable word limits for the briefs on the merits: the petition, the responses, and the reply. *Second*, Congress protected the PTAB from kitchen-sink petitions containing dozens of poorly explained grounds. Congress did so by giving the PTAB broad discretion — which it already exercises — to simply deny institution when a petitioner attempts to force the PTAB to sift through the papers looking for some basis to grant institution.⁸

Third, the PTAB does not need to address all of the claims when deciding whether to institute and again in its final written decision. Rather, the PTAB may avoid this duplicative effort by instituting review upon finding that the petitioner is likely to prevail as to just one or a few challenged claims. The PTAB may then wait until the trial and its final written decision before expending any further effort on the merits. The PTAB has done so in the past with no apparent ill effects.⁹

Fourth, Congress gave the PTAB the flexibility to fully address difficult cases. The same statute that imposes the one-year deadline for a final written decision also gives the PTAB the ability to extend that deadline for good cause.¹⁰

Patent Owners and Petitioners Under *SAS Institute*

The *SAS Institute* decision brings advantages and disadvantages to both defendant/petitioners and plaintiff/patent owners. The patent owner benefits because the PTAB must now institute or deny the petition in full. If denied, the patent owner/plaintiff's case will proceed in only one venue — at district court, without delay. However, the petitioner/defendant will not be estopped in district court from raising the same arguments denied institution at the PTAB. On the other hand, if instituted the PTAB's final decision must address all claims, triggering IPR estoppel in district court, preventing the petitioner/defendant from raising duplicative attacks against any surviving claims.

Petitioners benefit because they will now obtain judicial review of what would have been non-instituted claims. Previously, the PTAB's decision to not institute as to these claims appeared only in the PTAB's non-appealable institution decision. Because of *SAS Institute*, these previously non-instituted claims will likely be confirmed as patentable in the final decision instead — which may be appealed to the Federal Circuit, perhaps resulting in more appeals and cross-appeals.

To ensure the petitioner does not gain an unfair advantage, the PTAB will need to enforce the rules prohibiting new arguments post-institution meticulously — saddling the petitioner with the theories and arguments presented in its petition.¹¹ The PTAB may also simply deny institution of an unduly complicated and ill-explained petition, which leaves the petitioner with a bad result and no clear path for judicial review.

As a result, petitioners are well-advised to carefully craft their petitions, focusing on just a few well-supported grounds. A PTAB panel faced with an overwhelming number of poorly explained grounds

challenging numerous claims may exercise its statutory discretion and deny the entire petition without reaching the merits, or perhaps worse for the petitioner, institute and ultimately confirm the patentability of most of the challenged claims and trigger the IPR estoppel.

For existing IPRs (and IPRs on appeal) with partial institutions, the PTAB is likely required to issue a final written decision addressing the non-instituted claims. Petitioners and patent owners should discuss the particular facts of their case with their counsel to determine what effect, if any, *SAS Institute* may have on their cases and what actions should be taken to preserve their rights.

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Endnotes

¹ 584 U.S. ___, No. 16-712 (April 24, 2018).

² 584 U.S. ___, No. 16-969 (April 24, 2018).

³ B. Steinberg, J. Strang, *Why the Patent Trial and Appeal Board Should Fully Decide Instituted Petitions*, (Law.com, Sep. 11, 2017), available at <https://www.lw.com/thoughtLeadership/why-the-patent-trial-and-appeal-board-should-fully-decide-instituted-petitions>. ("Steinberg").

⁴ The petitioner in an IPR "that results in a final written decision . . . may not assert either [in district court or before the ITC] that the claim is invalid on any ground that the petitioner raised or reasonably could have raised during that [IPR]." 35 U.S.C. § 315(e)(2).

⁵ See Steinberg (analyzing statistics from the USPTO).

⁶ *SAS Institute*, No. 16-969, slip op. 14.

⁷ Justice Kagan joined except as to one paragraph of the dissenting opinion.

⁸ *Id.* (citing *Cisco Sys., Inc. v. C-Cation Techs.*, IPR2014-00454, Paper 12 at 7–10 (Aug. 29, 2014) (informative)).

⁹ See Steinberg (citing *Intex Recreation Corp. v. Bestway Inflatables*, IPR2016-00180, Paper 13 (June 6, 2016) and Paper 33 (May 26, 2017)).

¹⁰ 35 U.S.C. § 316.