

Why the Patent Trial and Appeal Board Should Fully Decide Instituted Petitions

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In *SAS Institute v. Iancu*, the U.S. Supreme Court will decide whether the Patent Trial and Appeal Board's final written decision must address the patentability of all of the claims challenged by a petitioner instead of just some of them. This case has certainly been overshadowed by *Oil States*, in which the Supreme Court will determine whether inter partes review (IPR) is constitutional. It seems unlikely, however, that the court granted certiorari in *SAS Institute* expecting to find IPRs unconstitutional in another case. This article assumes that IPRs and other Board proceedings will be upheld as constitutional, and explains why the U.S. Patent and Trademark Office should fully decide instituted petitions as a matter of policy, even if the Supreme Court rules in *SAS Institute* that doing so is not required by the statute.

Congress created the Board as a more efficient alternative venue for the public to challenge validity using patents and other published prior art. To fulfill this function, the Board should fully decide instituted petitions because each challenged claim is either already asserted or assertable in district court against the typical petitioner. As patent owners have explained, such as the Intellectual Property Owners Association (IPOA) in its amicus brief, deciding the patentability of just some challenged claims—

even if the petition failed to demonstrate a likelihood of prevailing in those claims—subverts congressional intent because the petitioner gains an opportunity for a “do over” instead of facing the statutory estoppels that would accompany a final written decision.

Likewise, rejecting certain unpatentability grounds at the institution stage insulates those grounds from estoppel. Both of these practices expose patent owners to the possibility of successive attacks on the same challenged claims on the same grounds. The Board's partial-decision practice also hurts petitioners because it shields from judicial review the Board's denials of petitioners' potentially meritorious challenges to patentability.

If the Supreme Court reverses in *SAS Institute* and holds that the Board's final written decision must address all of the claims in the petition, the Board will likely abandon its practice of instituting review of only some challenged claims and instead consider the entire administrative record before making its final decision on any claims. The Board should do so even if the Supreme Court does not reverse in *SAS Institute*. Fully deciding instituted petitions furthers Congress' goal of streamlining



U.S. Supreme Court building in Washington, D.C.

patent litigation for the parties and solidifies the Board's role as the venue for determining patentability. Doing so also solves *SAS Institute*'s judicial-review concerns and gives patent owners the full protection promised by the estoppel statute.

In its merits brief, the Office expressed concern about its own efficiency. Congress took a more balanced view, however, and sought to create an efficient alternative venue that streamlines patent litigation for the parties. Further, fully deciding a petition does not necessarily entail significantly more work for the Board or the parties. The Board could eliminate its current duplicative practice of deciding the merits of each claim twice: once at institution and again in the final written decision. Instead, the Board could make the statute's “threshold” institution decision by finding a likelihood

of prevailing as to just one or a few claims, devoting the bulk of its efforts and resources to the trial hearing and final written decision, and, if needed, exercising its discretion to extend its one-year deadline.

The Case: *SAS Institute v. Matal*

The question presented in *SAS Institute* is whether 35 U.S.C. Section 318(a), the statute that requires the Board to issue “a final written decision with respect to the patentability of any patent claim challenged by the petitioner,” allows the Board to issue a final written decision that addresses only some of the claims challenged in the petition.

This question arises because the Board often follows its own regulation permitting it to institute review “on all or some of the challenged claims.” 37 C.F.R. Section 42.108. The Office did not promulgate a corresponding regulation addressing which claims the Board must address in the final written decision, but takes the position that the Board need only decide those claims on which it instituted trial. Resp’t Br. 9, *SAS Institute v. Matal*, No 16-969 (Sept. 5, 2017); 77 Fed. Reg. 48680, 48689 (Aug. 14, 2012).

The institution statute does not directly address partial institution: “The Director may not authorize an inter partes review to be instituted unless” the petition demonstrates “a reasonable likelihood that the petitioner would prevail with respect to at least o of the claims challenged in the petition.” 35 U.S.C. Section 314(a). However, the final-decision statute states that the “Board shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner.” 35 U.S.C. Section 318(a).

The Office argues that § 318 “is most naturally read to refer to the claims that are challenged within the instituted inter partes review.” Resp’t Br. 31. The Office and the Federal Circuit contend that the two italicized phrases above are different and therefore must have different meanings, with the second referring only to the instituted claims.

Resp’t Br. 33; *SAS Institute v. ComplementSoft*, 825 F.3d 1341, 1352 (Fed. Cir. 2016) (relying on *Synopsys v. Mentor Graphics*, 814 F.3d 1309, 1314 (Fed. Cir. 2016)). And if there was any doubt, they explain, the Office’s interpretation warrants *Chevron* deference. Resp’t Br. 44; *Synopsys*, 814 F.3d at 1316.

Petitioner SAS Institute, amicus IPOA, and Judge Newman in her dissenting opinions disagree, contending that both statutes refer to all of the claims challenged in the petition. Pet’r Br. 18 (July 20, 2017); IPOA Amicus Br. 2-3 (July 20, 2017); *Synopsys*, 814 F.3d at 1324-33 (Newman, dissenting); *SAS Institute*, 825 F.3d at 1353-60 (Newman, dissenting); *SAS Institute v. ComplementSoft*, 842 F.3d 1223, 1224-29 (Fed. Cir. 2016) (Newman, dissenting).

They contend that “Congress did not hide a secret clue in the statute” by using slightly different, but equivalent, language. *E.g.*, Pet’r Br. 25. *Chevron* is not applicable here, they explain, because the statute unambiguously requires the Board’s final written decision to address all of the claims challenged by the petitioner. *E.g.*, Pet’r Br. 33.

If the Supreme Court reverses, the Board will likely abandon partial institutions.

Whether the Office may partially institute an IPR is not at issue in this case. However, the Board will most likely abandon this practice if the Supreme Court holds that final written decisions must address all of the claims challenged in the petition.

The Office’s briefing recognizes that it “would make very little sense” to address non-instituted claims “without analyzing those claims” with the “benefit of full merits briefing.” Resp’t Br. 46-47. More precisely, the Board has not heard *all* of the evidence or argument when it makes a threshold decision



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to institute. It has the petition, which must fully set forth the petitioner’s challenge, and the patent owner’s preliminary response. The parties may further explain their positions during the course of the trial, and the Board may recognize that the petitioner had been right or wrong in its petition.

Thus, rather than simply incorporating its decision not to institute a claim into its final written decision, the Board should consider every challenged claim after weighing all of the evidence and arguments submitted throughout the proceeding. The resulting final written decision should be better supported by record evidence and less susceptible to reversal or vacation and remand than it would be otherwise.

In addition, the Board might not want to expose to U.S. Court of Appeals for the Federal Circuit review some of its past institution-decision practices, such as denying grounds as “redundant” without any further reasoning, especially given the chance a claim could survive the instituted challenge for reasons that were plainly addressed in the petition’s “redundant ground.” A remand for a complete trial on a non-instituted, redundant ground will almost certainly entail more work for the Board and the parties than if the Board had made a threshold institution decision and then provided a considered opinion on the merits of each of the arguments raised in the petition.

Even if not required by statute, the Board should institute and decide all claims challenged in a petition anyway.

While partially deciding petitions might ease the Board's workload, the practice inflicts a great cost to the parties and circumvents the congressional goal of streamlining patent litigation. The authors therefore contend that the Board should change its current practice and fully address in its final written decision all of the claims challenged in a petition.

The Board has much to gain. Doing so will help the Board become the central venue for deciding patentability and fulfill Congress' intent in enacting the America Invents Act. Deciding all claims will help "the estoppel provision ... eliminate abusive litigation tactics," as patent owners seek (IPOA Amicus Br. 6), and would address IPR petitioners' judicial-review concerns. Pet'r Br. 42.

Partially decided petitions prevent the Board from serving as a more efficient alternative to district court as Congress intended. When it partially institutes a petition, the Board is making itself a supplemental venue for challenging validity. This forces the parties to endure an IPR proceeding and to address the validity of the non-instituted claims again in the district court. In contrast, by either fully granting or completely denying institution, the Board enforces the petitioner's choice of venue between the Board and the district court. If review is not instituted on any claims, validity will be decided only by the district court. If the review is fully instituted, the final written decision will not leave any claims in limbo for any re-do opportunities in district court. Each claim will either be rendered unpatentable or protected from any further challenges on any grounds that reasonably could have been raised in the IPR proceeding.

In addition, fully instituting petitions will likely increase the probability that a district court would grant stays of concurrent litigation, reducing wasteful parallel validity litigation because the district court will be further persuaded that the Board will resolve all of the challenged claims while the district

court action is stayed. See *Toshiba Samsung Storage Tech. v. LG Elecs.*, 193 F. Supp. 3d 345, 348-350 (D. Del. 2016) (factors for granting a stay).

The effect should not be trivial. Although statistics regarding the frequency and extent of partial institutions are hard to find, the authors calculated from the PTO's statistics that an average of about 1.7 claims are denied institution per instituted review, which includes only 13 or 14 instituted claims on average.

The Board should also abandon its practice of instituting only some of the proposed "grounds."

The Supreme Court's forthcoming decision in *SAS Institute* will almost certainly not reach the Board's practice of deciding only some of the "grounds" or proposed theories of unpatentability proposed in a petition, which further turns the Board into a supplemental, rather than an alternative, venue.

This practice of addressing only some grounds has also created the paradox faced by the Federal Circuit in *Shaw Industries Group v. Automated Creel Systems*, 817 F.3d 1293 (Fed. Cir. 2016). In *Shaw*, the Board instituted review of the claims at issue, but only on some of the grounds proposed in the petition. The Board decided not to institute one ground, merely labeling it "redundant." The *Shaw* court recognized that the Board did not mean that the ground was cumulative or duplicative of the others, but that the Board simply would not consider that ground during the instituted proceeding.

The challenged claims ultimately survived the review conducted only on the instituted grounds. Although the statutory estoppel applies to any ground that a party "raised or reasonably could have raised" during the proceeding and the non-instituted ground was raised in the petition, the Federal Circuit found that *Shaw* was *not* estopped from raising that same ground again in district court because the Board prevented the petitioner from raising it during the instituted proceeding.

The district courts have struggled with the *Shaw* paradox. Some district courts apply the *Shaw* estoppel exception even when the ground was denied institution on the merits, while other courts do not. See, e.g., *Intellectual Ventures v. Toshiba.*, No. 13-453-SLR (D. Del. Dec. 19, 2016); *Douglas Dynamics v. Meyer Products*, No. 3:14-cv-886-JDP (W.D. Wisc. Apr. 18, 2017). The district courts' treatment of subsets of denied grounds is also inconsistent. For example, when the Board instituted review on the ground that the claims would have been obvious over a combination of references, but declined to address proposed grounds challenging the claims with each reference separately, one court ruled that the *Shaw* estoppel exception encompassed the separate references, while another arrived at the opposite conclusion on similar facts. *Oil-Dri Corp. of America v. Nestle Purina Petcare*, No. 1:15-cv-01067, ECF No. 140 (N.D. Ill. Aug. 2, 2017); *Verinata Health v. Ariosa Diagnostics*, No. 3-12-cv-05501, ECF No. 319 (N.D. Cal. Jan. 19, 2017).

In addition to creating confusion in the courts over how to handle denied grounds, the Board has created a situation ripe for gamesmanship. Because denied grounds are insulated from the estoppel, petitioners quickly seized on the opportunity to ensure two bites at the apple by submitting additional grounds in the petition in the hopes that some will be denied. See, e.g., Owens, Tom, "Federal Circuit Holds That Grounds Denied Institution as Redundant Are Not Subject to Estoppel," and Singularity LLP, "Redundancy in IPR Petitions Can Be Your Friend."

Thus, rather than providing an alternative venue, the Board created yet another mechanism to ensure two separate paths for challenging validity. Instead of focusing on its own efficiency, the Office needs to also take into account the rippling effects its practices have on patent litigation and the parties. The Board could put an end to these dual-path

tactics entirely by instituting on all grounds or none at all.

This does not mean the Board must always reach the merits of multiple duplicative and poorly supported grounds when it institutes. For example, if the Board finds a claim unpatentable on one ground in the final written decision, it may decline to reach the other grounds without creating the estoppel paradox that arose in *Shaw*.

The Board is equipped to realize Congress' vision of an alternative, rather than supplemental, venue.

If the Supreme Court decides that the Board's final written decisions must address the patentability of all of the claims challenged in the petition (or even if the court does not), the Board is already equipped to do its job of fully deciding petitions.

First, the Office has already established reasonable word limits for the briefs on the merits: the petition, the responses and the reply.

Second, Congress protected the Board from kitchen-sink petitions containing dozens of poorly explained grounds that barely fit within the word limit by giving it broad discretion—which the Board already exercises—to simply deny a petition that would force the Board to sift through a plethora of poorly explained grounds looking for some basis to grant or deny institution. E.g., *Cisco Sys v. C-Cation Techs.*, IPR2014-00454, Paper 12 at 7–10 (Aug. 29, 2014) (informative); *Sanofi-Aventis v. AstraZeneca Pharms.*, IPR2016-00348, Paper 10 at 7 (June 28, 2016).

Third, the Board creates extra work for itself by addressing all of the claims and grounds in the institution decision (except those it deems “redundant”) and again in the final written decision. The Board may avoid this duplicative effort by fully instituting

a petition that demonstrates a likelihood of prevailing as to one claim, and then waiting until the trial and/or the final written decision before expending further efforts on the merits. The Board has done so in the past with no apparent ill effects. *Intex Recreation v. Bestway Inflatables*, IPR2016-00180, Paper 13 (June 6, 2016) and Paper 33 (May 26, 2017).

Fourth, Congress gave the Office the flexibility to fully address difficult cases. The same statute that imposes the one-year deadline for a final written decision also gives the Board the ability to extend that deadline for good cause. 35 U.S.C. Section 316.

By fully instituting the petition and addressing the merits in the final written decision, the Board will also trigger the estoppel, preventing repeated attacks against the patent. Fully instituting the petition does not give the petitioner an unfair advantage during the instituted review because the petitioner is saddled with the arguments and evidence that it presented in its petition. The petitioner does not have a meaningful opportunity to repair any deficient arguments because it is forbidden from raising new arguments or unpatentability theories in its reply brief and during oral argument. 37 C.F.R. 42.23(b); *Intelligent Bio-Systems v. Illumina Cambridge*, 821 F.3d 1359, 1369-70 (Fed. Cir. 2016).

The Office contends that this approach would be “unfair to patent owner[s]” because it would “require a full response to challenges on claims that do not meet the initial threshold.” Resp’t Br. 43 (quoting 77 Fed. Reg. 48,703). Patent owners, however, already bear that burden in the preliminary response, and at least one patent-owner-centric association has said patent owners would rather have the statutory estoppel protect them against repeated validity attacks. IPOA Amicus Br. 11.

This approach is also more fair to petitioners than the status quo, because addressing the previously non-instituted claims and grounds in the final written decision will provide the opportunity to obtain judicial review. Pet’r Br. 29 & n.2, 38, 42. This approach also eliminates petitioner gamesmanship enabled by the *Shaw* exception, and encourages petitioners to focus on just a few well-supported grounds. A Board panel facing a petition containing an overwhelming number of poorly explained grounds challenging numerous claims may exercise its statutory discretion and simply deny the entire petition without reaching the merits.

Once the Board issues a few such decisions denying institution outright, smart petitioners will quickly adjust their strategy to focus on their one or two best theories of unpatentability to ensure their petitions are instituted. They will also focus only on the claims with the best chance of success because they will be estopped from later challenging instituted claims found patentable in the final written decision. In the end, this approach enables the Board to simplify petitions, reduce its workload, balance its needs with those of the public, and become the central venue for deciding validity.

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