

Supreme Court and Appellate Alert

May 1, 2018

Key Points

- The Supreme Court in *Oil States v. Greene's Energy* ruled 7-2 that cancellation of patent claims in an inter partes review does not violate either Article III or the Seventh Amendment of the Constitution
- In *SAS Institute v. Iancu*, the Supreme Court held 5-4 that under the plain text of Section 318(a), the PTAB “must address every claim the petitioner has challenged,” not just those for which the petitioner had demonstrated a reasonable likelihood that it would prevail.



Supreme Court Speaks on Constitutionality and Scope of Inter Partes Reviews at the PTO

Last week, the Supreme Court issued a pair of opinions—*Oil States Energy Services, LLC v. Greene's Energy Group, LLC* and *SAS Institute, Inc. v. Iancu*—that brought further clarity to the legality and scope of *inter partes* reviews under the America Invents Act.

In *Oil States*, the Court held that the Patent Trial and Appeal Board's (PTAB) reconsideration and cancellation of patent claims in an *inter partes* review does not violate either Article III or the Seventh Amendment of the Constitution. The petitioners in *Oil States* had argued that patents confer private rights that can be challenged in only Article III courts, not public rights also susceptible to challenges in non-Article III forums. Affirming the Federal Circuit, the Court explained that the Patent and Trademark Office's (PTO) initial decision to grant a patent is one that “falls squarely within the public-rights doctrine” because a patent constitutes a public franchise with the attributes of personal property, subject to the conditions set forth by Congress in the Patent Act. Because *inter partes* review is one such condition, and it functions as a reconsideration of the earlier grant, “it, too, falls on the public-rights side of the line.” Thus, the PTO's exercise of its authority to review patentability through *inter partes* reviews does not violate Article III (and necessarily, by extension, the Seventh Amendment).

While the Court's *Oil States* decision does not change existing law, given its agreement with the Federal Circuit, its decision in *SAS* modifies how *inter partes* reviews will proceed. There, the Court reversed the Federal Circuit and held that, under the plain text of Section 318(a), the PTAB “must address every claim the petitioner has challenged.” Previously, the PTAB exercised a partial institution policy, instituting trials on only those claims for which it determined that the petitioner had demonstrated a reasonable likelihood that it would prevail. Both parties in *SAS* raised *Chevron* deference in their arguments—the PTO as grounds for affirmance and *SAS* as an opportunity for the Court to abandon *Chevron* entirely. The Court

decided that “whether *Chevron* should remain is a question we may leave for another day,” but that, even under *Chevron*, the PTO’s suggested interpretation was owed no deference in view of the “unmistakable commands” set forth in the statutes.

The Patent Office responded swiftly to *SAS*, releasing written guidance just two days after the decision issued. Going forward, the PTAB will institute trials as to “all challenges” in a petition, as required by *SAS*. For trials already pending—a subject that the Supreme Court did not address—the PTAB **may** issue an order supplementing the institution decision to institute on “all challenges” raised in the petition.

Practical Impact of *Oil States* and *SAS*:

The impact of *Oil States* will be relatively minimal—the decision maintains the status quo, allowing *inter partes* reviews to proceed. Nonetheless, the Court explicitly left open the possibility of additional challenges to the constitutionality of *inter partes* reviews by emphasizing that its decision reached only the precise Article III and Seventh Amendment issues raised in *Oil States*. Specifically, the Court did not decide whether *inter partes* reviews can be applied retroactively to patents issued prior to the creation of that process in 2011, and it cautioned against reading its opinion to suggest that patents are not property for the purposes of the Due Process Clause or the Takings Clause. Parties may well treat these caveats as invitations to further challenge the constitutionality of *inter partes* reviews in the near future.

The impact of *SAS* will be much more significant and can be expected to be felt not only at the PTAB, but also in district courts and the Federal Circuit:

- **Impact at the PTAB:** According to the PTO’s guidance, the PTAB will institute trial as to **every claim challenged** in a petition or as to none at all. In subsequent communications with the public, the PTAB has also made clear that, for the time being—in cases where trial is instituted—it will institute trial on **every ground raised**.

The PTAB, however, is noncommittal as to how *SAS* will impact the scope and content of institution decisions. In interpreting the statutory language of Section 314(a), Justice Gorsuch—writing for the majority—noted that, once a petitioner establishes that it is likely to succeed as to at least one claim, “the Director need not even consider any other claim before instituting review.” Thus, it is probable that *SAS* will lead some PTAB panels to issue shorter institution decisions that address only a single claim, leaving the parties with less guidance regarding the strengths and weaknesses of their positions as they enter the trial phase. In this regard, the PTAB has limited itself to stating that the scope of post-*SAS* institution decisions will be the prerogative of individual PTAB panels.

SAS also clarified that the PTAB is explicitly prohibited from considering grounds not raised in a petition: “Nothing suggests the Director enjoys a license to depart from the petition to institute a *different inter partes* review of his own design.” Going forward, petitioners should take heed to put their best foot forward at the petition stage. *SAS* spells out in no uncertain terms that the petition is the “centerpiece of the proceeding both before and after institution.” The PTAB will presumably be even less forgiving with

petitioners who attempt to address issues that are not specifically raised in their petitions. Final decisions that expand beyond the express contents of the petition will likely be more vulnerable on appeal.

The effect of SAS on ongoing proceedings where there was a partial institution will depend on the stage of the proceeding. However, the PTAB is likely to do two things in the short term: (i) issue supplemental institution orders addressing challenged claims that were not part of the original institution decision and (ii) tap into the six additional months under Section 316(a)(11) for cases that it is unable to complete within one year of issuance of the original institution decision.

- **Impact at the District Court:** The most obvious impact of SAS in district court litigations will be in the area of estoppel. Now that all claims in a petition will either be subject to trial or not reviewed at all, no challenged claims will be shielded from the effect of estoppel in cases where an *inter partes* review is instituted. Nevertheless, the scope of what grounds the petitioner “reasonably could have raised” under Section 315(e)(2) will remain a subject of dispute.

SAS may also have some impact on the availability of stays in district court litigation. Now, more than ever, the PTAB’s decision to institute will likely be critical to a district court’s decision to grant or deny a stay of litigation. Prior to SAS, in cases where *inter partes* review was denied as to some claims, a patent owner could choose to press ahead with those surviving claims in a parallel district court litigation. That possibility is now less likely if an *inter partes* review is instituted because all challenged claims will remain under review until the PTAB issues its final written decision. Under such circumstances, a district court may be more willing to grant a stay.

- **At the Federal Circuit:** The impact of SAS at the Federal Circuit is likely to be more one of form, rather than substance. There will be more opportunities for appeals and more patentability issues raised on appeal, but the range of issues raised is not likely to expand. The appeals will continue to predominantly focus on substantive patentability decisions. Notably, petitioners will now have the opportunity to challenge the PTAB’s decision on claims for which it did not carry the burden at institution so long as a trial is instituted. Decisions not to institute will remain unappealable.

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