

Supreme Court Rulings Signal Significant Changes to Post-Issuance Patent Reviews

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In a pair of decisions issued on April 24, 2018, the U.S. Supreme Court clarified the constitutionality of and the appropriate practice for *inter partes* review. The 7-2 majority opinion in *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, authored by Justice Clarence Thomas, upheld the constitutionality of *inter partes* review established by the Leahy-Smith America Invents Act. The Court rejected challenges rooted in Article III and the Seventh Amendment and decided that the grant of a patent, subject to later reconsideration, concerned a public — not a private — right. In *SAS Institute Inc. v. Iancu*, on the other hand, a 5-4 majority decision authored by Justice Neil M. Gorsuch reversed the U.S. Court of Appeals for the Federal Circuit, holding that when the U.S. Patent and Trademark Office (Patent Office) institutes an *inter partes* review proceeding concerning at least one claim, it must issue a final written decision with respect to the patentability of all other claims challenged by the petitioner.

Although the pair of decisions reaffirm the legality of *inter partes* review, both patent owners and patent challengers will need to re-evaluate their respective litigation strategies to account for how final written decisions will issue going forward. These decisions will have important practical implications for currently pending and future *inter partes* review procedures, strategies for practitioners and parallel post-issuance patent procedures.

Oil States Energy Services, LLC v. Greene's Energy Group, LLC

Procedural Background

Both Oil States and Greene's Energy are oilfield services companies. In 2012, Oil States sued Greene's Energy for patent infringement in federal district court, asserting U.S. Patent No. 6,179,053, a patent related to an apparatus and a method for protecting well-head equipment used in hydraulic fracturing. Greene's Energy defended on two fronts, arguing invalidity in the district court while simultaneously petitioning the Patent Trial and Appeal Board (PTAB) for *inter partes* review.

The petition for *inter partes* review was instituted by the PTAB, and the two proceedings continued in parallel until they conflicted. On the one hand, the district court construed the patent's claims in a manner that foreclosed Greene's Energy's arguments regarding prior art. On the other hand, while the PTAB acknowledged the district court construction, it issued a contrary decision concluding that the claims at issue were unpatentable in light of that same prior art.

Oil States appealed the PTAB's decision to the Federal Circuit. In addition to raising arguments concerning patentability, Oil States also challenged the constitutionality of *inter partes* review, arguing that an action to revoke a patent must be tried in an Article III court before a jury. The Federal Circuit summarily affirmed the PTAB's decision in light of its 2015 opinion in *MCM Portfolio LLC v. Hewlett-Packard Co.*, which rejected the same constitutionality arguments.

The Supreme Court granted *certiorari* to determine whether *inter partes* review violates Article III or the Seventh Amendment.

The Supreme Court's Decision

***Inter Partes* Review Does Not Violate Article III Because It Concerns a Public Right and Therefore May Properly Be Adjudicated in a Non-Article III Tribunal**

Justice Thomas, writing for the Court, upheld the constitutionality of *inter partes* review under both Article III and the Seventh Amendment. The Court first concluded that the

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determination to grant a patent is a matter involving a public, not private, right: The grant of a patent, reasoned the Court, is a matter between the public — who are the grantors — and the patentee. When a patent is granted, the government takes from the public the right to practice the patent and bestows upon the patentee a right to exclude others from practicing the patent. This public franchise, the Court stated, is a constitutional function under Article I that can be carried out by the executive or legislative departments without judicial determination.

Given this, the Court proceeded to conclude that *inter partes* review concerned the same basic matter as the grant of a patent. *Inter partes* review is “a second look at an earlier administrative grant of a patent.” The fact that *inter partes* review occurs after the grant of a patent makes no difference because patent claims are granted subject to the qualification that the government has the authority to re-examine and cancel the patent claim in an *inter partes* review. Accordingly, the public-rights doctrine covers the matter resolved in *inter partes* review, and review is thus not prohibited by Article III.

The Court dismissed Oil States’ arguments that the determination to revoke a patent is a matter concerning private rights. To the contrary, “[p]atents convey only a specific form of property right — a public franchise. ... As a public franchise, a patent can confer only the rights that ‘the statute prescribes.’” And, as the majority points out, one of those prescriptions, qualifying a patentee’s right, is that a patent is subject to *inter partes* review. Moreover, the precedent that declares that only Article III courts have authority to cancel patents predates the version of the Patent Act that includes provisions for post-issuance administrative review.

The Court likewise refuted arguments from Oil States and the dissent that *inter partes* review violates the principle that Congress may not withdraw matters that, from their nature, are the subject of a suit at common law. The Court derives the nature of patent validity actions from their historical treatment. At the time of the founding, English patents could be canceled both through private litigation and through petitions to the Privy Council. Against this backdrop, the Court concluded that the patent system was created such that it could include a practice of granting patents subject to potential cancellation in the executive proceeding.

Finally, the Court rejected Oil States’ “looks like” test, where Oil States argued that, because *inter partes* review shares the salient characteristics associated with the exercise of judicial power, it violates Article III. The Court disagreed, holding that a tribunal “does not exercise judicial power simply because it is ‘called a court and its decisions called judgments.’”

***Inter Partes* Review Likewise Does Not Violate the Seventh Amendment**

As a corollary to the Article III determination, the Court concluded that *inter partes* review does not violate the Seventh Amendment. The Court reasoned that, because the adjudication is properly assigned to a non-Article III tribunal, there is no need for a jury to adjudicate the matter. As a result, *inter partes* review does not violate the Seventh Amendment.

Short Concurrence Emphasizes That Some Private Rights May Be Adjudicated Outside Article III Courts

In a concurring opinion authored by Justice Stephen G. Breyer and joined by Justices Ruth Bader Ginsburg and Sonia Sotomayor, the three justices emphasized that some private rights might be susceptible to adjudication outside of an Article III tribunal. In particular, they cautioned that this opinion be read to imply only that public rights may be adjudicated by non-Article III tribunals. The presence of private rights, on the other hand, requires a more searching examination of the relevant factors.

SAS Institute Inc. v. Iancu

Procedural Background

ComplementSoft sued SAS for infringement of U.S. Patent No. 7,110,936, a patent directed to a software system and method. In response, SAS petitioned the PTAB for *inter partes* review of all 16 claims of the patent. As part of its standard practice, the PTAB then instituted *inter partes* review for nine of the 16 claims, reasoning that SAS was likely to succeed on the instituted claims. The PTAB subsequently issued a final written decision confirming the patentability of one claim but finding the eight other claims were unpatentable. No final decision was issued with respect to the remaining seven claims because a review was not instituted for those claims.

SAS appealed to the Federal Circuit, arguing that the PTAB should have issued a written decision for all 16 challenged claims. In support, SAS relied on 35 U.S.C. § 318(a), which reads in relevant part that, when “an *inter partes* review is instituted ... 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.”

The Federal Circuit rejected SAS’ argument and affirmed the PTAB’s ruling. It relied on its recent decision in *Synopsys, Inc. v. Mentor Graphics Corp.*, where it found no statutory requirement that the PTAB review every claim challenged in a petition for *inter partes* review.

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The Federal Circuit denied rehearing on November 7, 2016, and the Supreme Court granted *certiorari* on May 22, 2017.

The Supreme Court's Decision

Justice Gorsuch, writing for the Court, reversed the Federal Circuit's decision. The majority found that "the plain text of § 318(a)" dictates that once an *inter partes* review is instituted, "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." In the majority's opinion, this text is unambiguous and requires a final written decision on all challenged claims.

The Court rejected the Patent Office's assertion that it had discretion to decide which claims make it into the *inter partes* review process. The Court noted that, to the contrary, Congress chose to structure a process that gives the petitioner, not the Patent Office, the ability to "define the contours of the proceeding."

The Court also explicitly declined to readdress *Chevron*, the seminal case conferring deference to an agency's construction of a statute that agency was intended to administer. Instead, the Court noted that even under *Chevron*, the Patent Office's interpretation of law would only be afforded deference if the statute were ambiguous, which it found was not the case here.

Finally, the Court rebuked the Patent Office's contention that *Cuozzo* foreclosed judicial review of any legal question bearing on the institution of *inter partes* review. *Cuozzo*, according to the Court, recognized both a "strong presumption" in favor of judicial review and that Section 314(d) does not "enable the agency to act outside its statutory limits." The Court distinguished *Cuozzo*, reasoning that SAS is not challenging the Patent Office's determination to institute *inter partes* review on certain claims — which would be forbidden under *Cuozzo* — but rather the Patent Office's determination to review only certain claims.

Dissent Argues That 'Wooden' Reading of Statute Will Create Practical Difficulties

In an opinion authored by Justice Breyer and joined by Justices Ginsburg, Sotomayor and Elena Kagan, the four justices wrote that the Patent Office could find certain claims warranted re-examination while others did not. According to the dissent, disallowing the Patent Office's process "preclude[d] the Board's more rational way to weed out insubstantial challenges."

The dissent found that the words of Section 318(a) — "any patent claim challenged by the petitioner" — do not refer to the petitioner's original petition, since the petition is not referenced in the statute. Instead, the dissent argued that the more appropriate construction of "any patent claim challenged by the petitioner" is the patent claims that have been found to have a reasonable likelihood of success and thus have been effectively challenged in this process. Otherwise, the dissent reasoned that weak claims would not be reviewable under *Cuozzo* if the PTAB declined to institute a review, while those same weak claims would be reviewable if the PTAB agreed to institute a review. Accordingly, the dissent maintained that Congress would not have intended such an inconsistent result.

Implications for Patent Litigants

Although the full impact of the *Oil States* and *SAS* decisions remains to be seen, it is clear that these decisions will lead to significant changes in the way that post-issuance patent reviews are conducted. The Court's decision is likely to have at least the following implications for patent litigants:

Currently Pending *Inter Partes* Review Proceedings to Reinstitute All Challenged Claims

- In light of *SAS*, the PTAB on April 26, 2018, issued a [guidance memorandum](#) advising that proceedings in which there was only a partial institution will need to be reinstated on "all challenges in the petition." In addition, the parties are to be given the opportunity to alter the schedule and provide additional briefing. The language also suggests that the PTAB will institute not just on all claims but on all grounds, based on the use of the word "challenges."
- This is likely to place a burden on a number of tribunals. First, consideration of all challenged claims on all challenged grounds is a marked increase from the PTAB's previous workload. As a practical matter, panels may devote minimal resources to claims they did not believe should be instituted, such that the increase in workload could be mitigated. The Federal Circuit will surely see more cases and more issues, as institution decisions now become effectively appealable since all claims will be addressed in the final written decisions. District courts could fare better; arguments to stay may become more compelling, and estoppel effects will apply more broadly. But with increased odds that a district court may stay litigation pending PTAB challenges, the U.S. International Trade Commission may become a more attractive option — given that it is less inclined to stay actions — and thus could see an uptick in activity.

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Uncertain Effects on Future Petitions for *Inter Partes* Review

- While the fate for currently pending *inter partes* reviews has been partly determined, the future for *inter partes* review claim institution decisions is less clear. The Supreme Court instructed that when such a review is instituted, all challenged claims will receive a final opinion. Nonetheless, even when the PTAB finds that at least one claim is likely to succeed, it is under no statutory obligation to institute an *inter partes* review. Indeed, as Justice Ginsburg commented in her dissent, the PTAB may save resources by declining to institute as to any claims in a petition where some challenged claims did appear vulnerable. In such scenarios, Justice Ginsburg suggest that the PTAB might pass along guidance as to those challenges that the PTAB would find likely to succeed if they were refiled.

Inter Partes Review Petitioning Strategy Is Likely to Change

- Going forward, petitioners may be more selective about which challenges they raise in order to avoid potentially problematic estoppel effects. Under Section 315(e), a petitioner is estopped from asserting invalidity arguments at trial that it “raised or reasonably could have raised.” No estoppel attaches, however, to claims where the PTAB declines to institute proceedings. Now that the PTAB is required to issue a final written decision on all challenged claims — even where the PTAB finds those challenges unlikely to succeed — petitioners will be expected to put forward all potential arguments for each of those claims or see those defenses barred in court.

- Furthermore, the substance and focus of petitioners’ briefs may shift. If the PTAB institutes all claims where at least one claim is likely to succeed, petitioners may choose to devote disproportionate space to the most vulnerable claims while addressing other claims in a more cursory fashion.

Other Post-Issuance Challenges Likely to Conform

- The other post-issuance patent procedures authorized by the America Invents Act are also likely to withstand Article III and Seventh Amendment challenges in light of *Oil States*. In *Oil States*, the Court not only construed patent grant and revocation as concerning public rights but also found no constitutional violation in a non-Article III adjudication of these rights before the PTAB. Under the same reasoning, the two other post-issuance procedures authorized by the America Invents Act — post-grant review and covered business method review — would likely be held not to violate Article III or the Seventh Amendment.

- On the other hand, the Court’s determination in *SAS* that all “challenged” claims in an *inter partes* review require a final written decision may affect the PTAB’s procedure in similar post-issuance reviews. Indeed, litigants should be ready for the Federal Circuit to reconsider precedent interpreting other sections of the America Invents Act that use the “challenged” claims language.

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