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Intellectual Property Litigation Group **Alert:** Supreme Court Upholds *Inter Partes* Review of Patents as Procedures Used in These Proceedings Continue to Evolve

The Supreme Court recently issued two important patent decisions concerning post-grant review practice before the United States Patent and Trademark Office's Patent Trial and Appeal Board (PTAB).

In *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, No. 16-712 (Apr. 24, 2018), the Court held that *inter partes* reviews (IPRs) do not violate Article III or the Seventh Amendment of the Constitution. In *SAS Institute Inc. v. Iancu*, No. 16-969 (Apr. 24, 2018), the Court held that a statutory provision in the Patent Act requires the PTAB to issue patentability decisions on every patent claim challenged in an IPR petition.

These decisions confirm that IPRs will remain a significant feature of patent rights adjudication and as the procedures of these proceedings change, their strategic use by stakeholders will continue to evolve.

THE OIL STATES DECISION

Oil States asserted that IPRs violate the Constitution by extinguishing private property rights through a non-Article III forum without a jury. Oil States contended that history and Supreme Court precedent demand that patent invalidity determinations must be made in a district court.

The Supreme Court stated that the decision to grant a patent is a matter that involves public rights and Congress's authorization of the PTAB to reconsider that decision in an IPR proceeding does not violate Article III. The Court explained that a patent conveys a property right prescribed by statute, and thus a patent owner's property rights are subject to the provisions of the Patent Act, including provisions concerning IPRs.

The Court found that the precedents cited by Oil States do not prevent Congress from authorizing IPR proceedings. According to the Court, Oil States' authority from the 1800s reflects a description of the Patent Act existing at the time that did not have a provision for post-grant administrative review. The Court stated that Congress has the authority to establish a different statutory scheme for patents that includes post-grant administrative review.

The Court also determined that historical practice regarding patent invalidation in 18th-century England was not decisive. Under the English system at the time, the granting of patents were subject to cancellation in a court of law or in an executive proceeding. The Court observed that there is no indication that the practice of patent invalidation by executive authority in England was to be excluded from the patent system in this country. Although courts have traditionally determined patent validity in the United States, Congress has the authority to delegate such determinations to both the courts and executive officers.

The Court emphasized the narrowness of its holding and noted that it only addresses the specific constitutional challenges raised. The Court concluded that addressing the Article III challenge also resolves the Seventh Amendment challenge because the Seventh Amendment does not impose an independent bar to adjudication where Congress may properly assign that adjudication to a non-Article III tribunal.

THE SAS INSTITUTE DECISION

SAS filed an IPR petition seeking review of all sixteen claims of a patent. The PTAB instituted review only on claims 1 and 3-10 and issued a final written decision on those claims. SAS appealed and argued that the Patent Act requires the PTAB to determine the patentability of every patent claim challenged in its IPR petition.

The Supreme Court began with the statutory text, which reads that the PTAB "shall issue a final written decision with respect to any patent claim challenged by the petitioner...."¹ The Court reasoned that the plain meaning of the statute requires the PTAB to address every claim of the patent challenged by the petitioner.

The PTO argued that it has the discretion to decide which patent claims become part of an IPR proceeding. According to the PTO, the discretion to institute an IPR on some claims allows the PTAB to focus on meritorious challenges.

The Supreme Court, however, found that the language of the statute and its context does not support the PTO's position. The Court explained that the statute describes a

¹ 35 U.S.C. § 318(a).

procedure where the petitioner defines the scope of the IPR proceeding, and the PTO only has the authority to decide “whether to institute” an IPR proceeding pursuant to the petition.² Unlike the *ex parte* reexamination statute that provides for claim-by-claim institution, the IPR statute authorizes institution where “there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.”³ The Court found that the statutory language indicates that the PTAB has a binary choice in making an institution decision. The Court also stated that the agency’s interpretation of the law does not require deference where the language of the statute leaves no uncertainty.

The Court also disagreed with the PTO’s argument that the Court lacks the power to prohibit this partial institution practice because the statute states that the decision “whether to institute an inter partes review shall be final and nonappealable.”⁴ The Court concluded that this limitation on judicial review does not prevent the Court from ensuring that the PTO acts within the bounds of its authority granted by Congress.

IMPLICATIONS

Confirming the constitutionality of IPRs and eliminating partial institution decisions will have significant impacts on post-grant practice. First, the costs of IPRs will likely increase because more claims will reach a final decision requiring more work by the parties. Second, with more claims proceeding to a final decision, it seems that there may be more mixed decisions, i.e., where some claims are found unpatentable and other claims are found patentable. This suggests that there may be more appeals to the Federal Circuit brought by both petitioner and patent owner. Third, it seems reasonable to expect that institution decisions themselves will change, perhaps becoming less informative by only addressing one or a limited number of patent claims. Fourth, if more patent claims become subject to a final decision, these claims will be subject to estoppel in district court litigation.

Each of these possible changes suggests that IPRs may become a bit more like district court patent litigation—more expensive, more involved, and less front-loaded. All of these factors (and undoubtedly more to be revealed as these developments occur) will have a major influence on the perception of IPRs by petitioners and patent owners.

In addition to the Supreme Court’s decisions, PTO Director Andrei Iancu’s recent testimony to Congress suggests further changes are coming to IPR procedure and practice. Among other proposed actions, the Director stated that the PTO is assessing

² 35 U.S.C. § 314(b).

³ 35 U.S.C. § 314(a).

⁴ 35 U.S.C. § 314(d).

“potential improvements to the AIA trial standards and processes” in the areas of “the institution decision, claim construction, the amendment process, and the conduct of hearings.”⁵ For example, the PTO has announced a notice of proposed rulemaking that would change the applicable claim construction standard from the broadest reasonable interpretation to an approach consistent with the claim construction standard used in the district courts.⁶ This change may move IPRs still closer towards district court patent litigation practice. The actual substance of these possible changes and their net result on IPR outcomes remains to be seen. Nevertheless, as the IPR procedure continues to mature, it seems reasonable to expect that changes shifting procedures and standards more in favor of patent owners may make IPRs somewhat less attractive to accused infringers when compared with district court litigation. Decision-making by stakeholders will have to stay closely tuned to this developing landscape and may have to become more nuanced with respect to IPRs.

⁵ Oversight of the U.S. Patent and Trademark Office Before the S. Comm. on the Judiciary, 115th Cong. 4-5 (2018) (statement of Andrei Iancu, Under Sec’y of Com. and Dir. of U.S. Patent and Trademark Office).

⁶ Press Release, U.S. Patent and Trademark Office, USPTO Announces Notice of Proposed Rulemaking for Claim Construction Standard Used in PTAB Proceedings (May 8, 2018).

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