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Supreme Court Directs Patent Office to Change Its IPR Practice

On the same day the U.S. Supreme Court upheld the constitutionality of inter partes review (IPR) proceedings before the U.S. Patent and Trademark Office (PTO) Patent Trial and Appeal Board (PTAB), the Court also held that the PTAB must decide the patentability of every challenged claim in a patent under review, thereby striking down, at least in part, the PTAB's frequently used rule permitting partial IPR institution.

Writing for a 5-4 majority in *SAS Institute Inc. v. Iancu*, 584 U.S. ____ (2018), Justice Gorsuch held 35 U.S.C. § 318(a) unequivocally states the PTAB "*shall* issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner and any new claim added" once an IPR proceeding has been instituted. *SAS Institute*, slip op. at 4.

The case stemmed from SAS's challenge of a decision by the PTAB to institute IPR of only certain challenged claims of a patent owned by ComplementSoft LLC based on a provision in 37 CFR 42.108 authorizing the PTAB "to proceed on all or some of the challenged claims and on all or some of the grounds of unpatentability asserted for each claim." Agreeing with SAS, the Court held that the discretion given to the PTAB regarding "*whether to institute*" an IPR proceeding does not extend to the claims the review will encompass. Support for this decision was identified in 35 U.S.C. §314(a); according to Justice Gorsuch, once the "single claim threshold is satisfied"—i.e., "there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition"—"[r]ather than contemplate claim-by-claim institution, then, the language anticipates a regime where a reasonable prospect of success on a single claim justifies review of them all." *SAS Institute*, slip op. at 7. "Much as in the civil litigation system it mimics, in an [IPR] the petitioner is master of its complaint and normally entitled to judgment on all of the claims it raises, not just those the decision-maker might wish to address." *Id.* at 5.

In constraining the practice of partial institution, the Court rejected the government's argument that the Court lacked authority to review the PTAB decision. Notwithstanding 35 U.S.C. §314(d), which states, "The determination by the Director whether to institute an [IPR] under this section shall be final and nonappealable," and its own recent decision holding §314(d) ordinarily prevents appeal of an initial decision not to institute IPR, *Cuozzo Speed Technologies, LLC v. Lee*, 579 U.S. ___ (2016), the Court reached the issue under the exception articulated in *Cuozzo* for "shenanigans," holding "judicial review remains available consistent with the Administrative Procedure Act, which directs courts to set aside agency action 'not in accordance with law' or 'in excess of statutory jurisdiction, authority, or limitations." *SAS Institute*, slip op. at 13 (quoting 5 U.S.C. §§ 706(2)(A), (C)).

The Court withheld judgment on the government's other argument—that partial institution in an IPR is efficient because it "permits the Board to focus on the most promising challenges and avoid spending time and resources on others"—on the basis that such a policy argument is properly decided by Congress, not the Court. *SAS Institute*, slip op. at 10.

Dissenting Opinions

In a brief dissent, Justice Ginsburg counseled the PTAB it could achieve its objectives by denying petitions outright, which the majority conceded remains within the PTAB's discretion, while signaling petitioners that a narrower petition might be granted. Justice Gorsuch, in the majority's lone footnote, suggested, without deciding, that such a stratagem might too be deemed "shenanigans."

Justice Breyer wrote a lengthier dissent, joined by Justices Ginsburg, Sotomayor and (in all but small part) Kagan. That the Court split along customary conservative/liberal lines in the unusual context of an intellectual dispute is explained by the

issue Justice Breyer deemed to be at stake: He wrote to defend the power of the PTO and urged greater deference to its rule-making authority. Having concluded §318(a) is ambiguous, as the words "any patent claim challenged by the petition" do not specify "whether the relevant challenge is one made in the initial petition or only one made in the [IPR] proceeding itself," *SAS Institute*, slip op. at 4 (Breyer, J., dissenting), Justice Breyer concluded this silence warrants *Chevron* deference being given to the PTAB "to enact rules that are reasonable in light of the text, nature, and purpose of the statute." *Id.* at 8-9 (citing *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984)).

What *SAS* Means to You

In the immediate aftermath of the Supreme Court decision, the Patent Office issued new guidance to litigants, stating, "As required by the decision, the PTAB will institute as to all claims or none. At this time, if the PTAB institutes a trial, the PTAB will institute on all challenges raised in the petition." Guidance on the Impact of *SAS* on AIA Trial Proceedings, Apr. 26, 2018 (hereinafter *Guidance*). In the short term, these adjustments are likely to sow much confusion in pending proceedings. In the longer term, the "PTAB will continue to assess the impact of this decision on its operations and will provide further guidance in the future if appropriate." *Id.* The PTO may, of course, accept the Supreme Court's invitation to take its policy concerns to Congress.

Before *SAS*, the PTAB frequently granted partial review, limiting both the claims it would consider and the grounds of invalidity of those claims. Much of the rationale of *SAS* may be understood to suggest a broader obligation by the PTAB to consider all arguments. For example, Justice Gorsuch cited §312(a)(3), which "envisions that a petitioner will seek an [IPR] of a particular kind—one guided by a petition describing 'each claim challenged' and 'the grounds on which the challenge to each claim is based.'" *SAS*, slip op. at 6. If, as Justice Gorsuch suggests, "it's the petitioner, not the Director, who gets to define the contours of the proceeding," then the PTAB might be required to consider all arguments of invalidity raised. This appears to be the interpretation adopted by the PTAB in the *Guidance*, which promises to "institute on all challenges raised in the petition." PTAB Chief Judge David Ruschke has confirmed this interpretation at a public presentation, according to a recent *Law360* report. The PTAB *Guidance* may be subject to change because the majority decision in *SAS* ultimately rests on more limited statutory language requiring only "a final written decision with respect to the patentability of *any patent claim challenged by the petitioner* …." *SAS*, slip op. at 4 (quoting 35 U.S.C. §318(a)). Nonetheless, Judge Ruschke says the PTAB intends to review all grounds that are raised in IPR petitions as "the best way to move forward to make sure that [PTAB is] implementing *SAS* in the spirit that it was intended and was written."

Lest patent challengers rejoice too much in the *SAS* decision, three further points must be borne in mind. First, though the PTAB may now be forced to make final determinations of all claims and perhaps all issues pertaining to all claims with respect to which it institutes review, this does not necessarily suggest outcomes will frequently be more favorable to patent challengers. Weak challenges do not become strong challenges merely because they must be considered. Second, although the *SAS* decision may strengthen motions to stay parallel litigation if IPRs are more encompassing, strategy must continue to dictate tactics, as 35 U.S.C. §315(e)(2) estops re-litigation in a civil action of "any ground that the petitioner raised or reasonably could have raised during [IPR]." Third, as *SAS* makes clear, and as Justice Ginsburg's dissent emphasizes, the PTAB retains discretion to deny review outright, which it may do increasingly to protect itself against burdensome challenges of little merit. Speaking at the same presentation as Chief Judge Ruschke, PTAB Judge Scott Weidenfeller reportedly said the PTAB may retroactively deny review even in some cases in which it had agreed to partial institution. Patent challengers thus may find *SAS* to prove to be a Pyrrhic victory.

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