



Michael D. Specht



Jon E. Wright



Pauline M. Pelletier

The impact of *Oil States* and *SAS* on the post-grant landscape

Michael D. Specht, Jon E. Wright, and Pauline M. Pelletier from Sterne, Kessler, Goldstein & Fox consider the *Oil States* and *SAS* decision at the USPTO by discussing what the Supreme Court said, how the PTAB and the courts are responding, and other important points to take away from the decision.

On April 24, 2018, the Supreme Court issued two decisions involving the America Invents Act (AIA) – one maintaining the status quo and the other dramatically impacting post-grant practice before the Patent Trial and Appeal Board (PTAB). In *Oil States v. Greene’s Energy*, the Supreme Court held that *inter partes* review (IPR) does not violate Article III or the Seventh Amendment. The Court thus refused to end the post-grant proceedings that the AIA established in 2012. In *SAS Institute v. Iancu*, the Supreme Court did away with the PTAB’s practice of partially instituting post-grant proceedings – a significant departure from prior practice. In the wake of these decisions, the Courts and the Patent and Trademark Office (PTO) have started to grapple with their effects.

After *Oil States* and *SAS*, PTAB validity challenges remain a critically important and highly efficient way to assess patent validity. Due to swift action by the PTAB and the Courts, the impact of these decisions has been immediate with many practical and strategic implications. While the aftermath continues to unfold, the immediate impact of these decisions has been nothing short of a sea change in how decision-makers, stakeholders, and practitioners are thinking about post-grant proceedings, both as a litigation counterpart and as a policy tool. This article explores these changes. First, it summarizes the holdings of *Oil States* and *SAS*. Second, it evaluates the

impact that these decisions are having on the Courts and the PTAB. Finally, it highlights the practical and strategic points for patent owners and petitioners alike.

What the Supreme Court Held in *Oil States* and *SAS*

The opinions accompanying *Oil States* and *SAS* – including the various dissents and concurrences – warrant close attention. But a few critical passages concisely explain the holding in each decision. These are summarized below.

In *Oil States*, the Supreme Court held in a 7-2 majority that patents are revocable public franchises and that Congress has the latitude to assign adjudication of such public rights to agencies like the PTO. As a result, IPRs do not violate judicial rights under Article III or the Seventh Amendment right to a jury trial. The majority opinion explained that “[i]nter partes review . . . involves reconsideration of the Government’s decision to grant a public franchise” and “Congress has permissibly reserved the PTO’s authority to conduct that reconsideration.” Slip Op. at 6-7. Yet, the majority emphasized “the narrowness of our holding,” *id.* at 16, noting that “our decision should not be misconstrued as suggesting that patents are not property for purposes of the Due Process Clause or the Takings Clause.” *Id.* at 17. The majority also stressed that its decision does not address the “retroactive application” of IPRs. *Id.*

In *SAS*, the Supreme Court ruled by a slim 5-4 majority that the PTO’s regulation allowing the PTAB to institute on some, but not all, claims challenged in the petition violates 35 U.S.C. § 318(a). Section 318(a) requires the PTAB to issue a final decision as to “any patent claim challenged by the petitioner.” Prior to *SAS*, the PTAB regularly utilized partial institution as a mechanism to streamline IPR proceedings. The majority held that the PTAB lacks discretion to do so, mandating that if IPR is instituted at all, it must be on *all* of the claims challenged in the petition. While the issue presented pertained to whether all challenged *claims* must be part of the instituted proceeding, the majority spoke more broadly about the proper scope of the IPR process. Specifically, “in an *inter*

Résumés

Michael D. Specht

Michael is a director in Sterne Kessler’s Electronics Practice Group and co-chairs the firm’s Patent Office Litigation Practice.

Jon E. Wright

Jon is a director in Sterne Kessler’s Trial & Appellate and Electronics Practice Groups. He co-chairs the firm’s appellate practice.

Pauline M. Pelletier

Pauline is an associate in Sterne Kessler’s Trial & Appellate Practice Group.

partes review the petitioner is master of its complaint and normally entitled to judgment on all of the claims it raises, not just those the decisionmaker might wish to address.” Slip Op. at 5. The majority expanded on this notion, explaining: “[T]he statute envisions that a petitioner will seek an *inter partes* review of a particular kind – guided by a petition describing ‘each claim challenged’ and ‘the grounds on which the challenge is based.’ §312(a)(3). From the outset, we see that Congress chose to structure a process in which it’s the petition, not the Director, who gets to define the contours of the proceeding.” *Id.* at 6. The Court thus limited the PTO’s discretion: “The Director, we see, is given only the choice ‘whether’ to institute an *inter partes* review. That language indicates a binary choice – either institute review or don’t... Nothing suggests the Director enjoys a license to depart from the petition and institute a *different inter partes* review of his own design.” *Id.* at 6-7.

The majority in *SAS* also rejected two subsidiary arguments: (1) that the PTO’s partial-institution policy was judicially unreviewable; and (2) that the PTO’s statutory interpretation is entitled to *Chevron* deference. The latter point provoked disagreement from the four justices who dissented – Justices Ginsburg, Breyer, Sotomayor, and Kagan – who regarded partial institution as “the Board’s rational way to weed out insubstantial challenges.” Slip Op. at 1.

How these decisions are impacting the PTAB and the courts

In terms of immediate impact, the *Oil States* decision – while closely monitored as an existential threat to the PTAB – had relatively little impact other than preserving the status quo. In contrast, *SAS* prompted immediate responses from the PTAB and the Federal Circuit. A significant portion of the PTAB’s docket involves partially-instituted proceedings. The Federal Circuit is likewise actively reviewing numerous appeals taken from partially-instituted PTAB proceedings. Both venues acted quickly and decisively after *SAS* issued.

PTAB: The PTAB issued its “*SAS* Guidance” on April 26, 2018, explaining how the agency intended to come into compliance with the *SAS* in all pending post-grant proceedings. Namely, the PTAB announced that, going forward, it would institute on all claims as

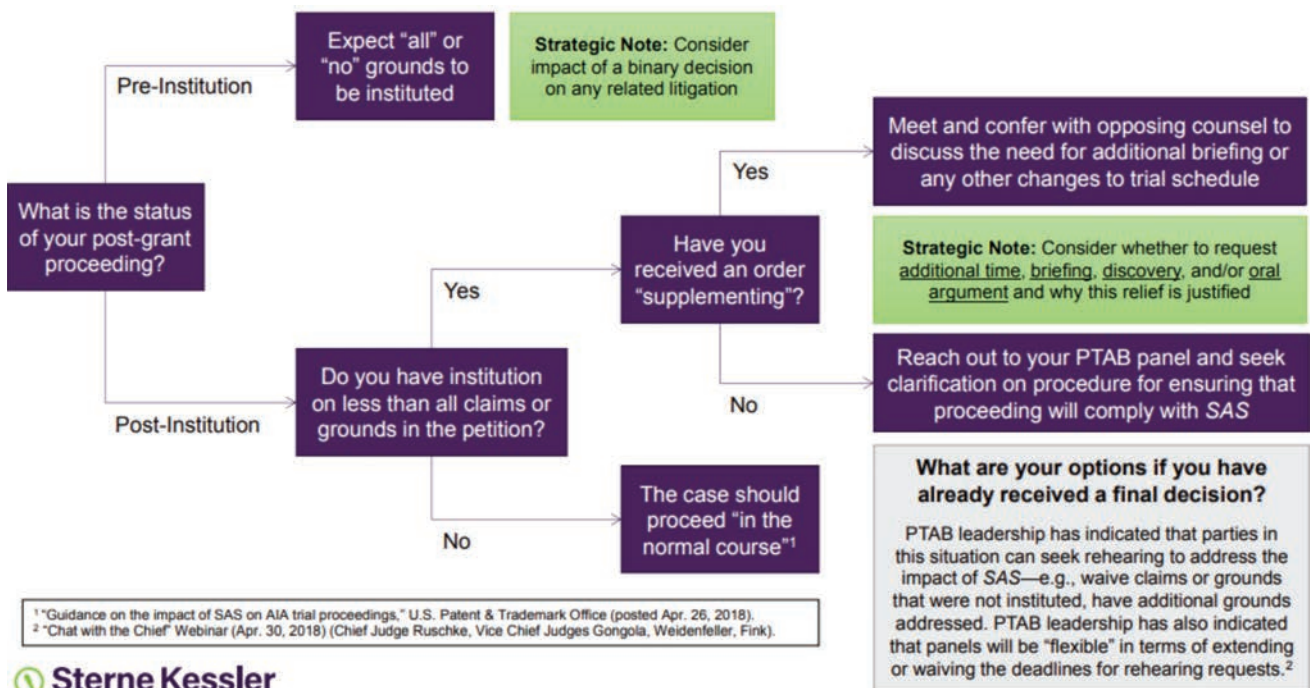
well as *all grounds* addressed in the petition. This practice would apply to all pending proceedings, whether pre-institution or post-institution. Cases that were post-institution would be “supplemented” to include all claims and grounds. The PTAB’s new procedure is illustrated in the flow-chart below.

To date, the PTAB has issued over 300 orders supplementing pending proceedings to comply with its newly stated goal of conducting a review of all claims and grounds in the petition. The guidance also advises parties to request adjustments to the schedules in pending proceedings to allow for additional briefings, arguments, and/or discovery as needed. Additionally, the PTAB has offered two live, interactive “Chats with the Chief” and has released a series of answers to frequently asked questions – most of which seek to provide guidance on procedural patterns that have arisen in light of *SAS*.

Federal Circuit: A few days after the decision in *SAS*, the Federal Circuit issued a series of letters requesting that counsel scheduled to argue in May in appeals taken from a partially-instituted PTAB proceeding be prepared to address its impact. These requests prompted early discussion of the holding in *SAS*. They also triggered orders from the Court for supplemental briefing on various topics, including: (1) whether the Court lacks jurisdiction to hear appeals resulting from partially-instituted PTAB proceedings; (2) whether patent owners and petitioners are equally entitled to seek remand following appeal to correct an erroneous partial-institution decision; and (3) whether parties have waived such relief by not arguing against partial institution in proceedings before the PTAB and in appellate briefing.

The Federal Circuit has since resolved these questions. First, the partial-institution issue is a “transitional” one that does not act as a limit on the Court’s appellate jurisdiction. *PGS Geophysical AS v. Iancu*, No. 2016-2470, 2018 WL 2727663, at *4-5 (Fed. Cir. June 7, 2018). Second, patent owners and petitioners are equally entitled to seek a remand as relief from a partial-institution decision. *Polaris Industries Inc. v. Arctic Cat, Inc. et al.*, Nos. 2017-1870, 2017-1871 (Fed. Cir. May 30, 2018). Third, any failure to brief the issue before the PTAB or on appeal is excused because *SAS* constitutes a significant change in the law. *Id.* The Federal Circuit also endorsed the PTAB’s approach going forward of instituting on all claims and *all grounds*,

SAS flow-chart: Do you need to do anything at the PTAB?



¹ "Guidance on the impact of SAS on AIA trial proceedings," U.S. Patent & Trademark Office (posted Apr. 26, 2018).
² "Chat with the Chief" Webinar (Apr. 30, 2018) (Chief Judge Ruschke, Vice Chief Judges Gongola, Weidenfeller, Fink).



noting: “Equal treatment of claims and grounds for institution purposes has pervasive support in SAS.” *PGS*, 2018 WL 2727663 at *3-4. In another recent order, the Federal Circuit observed that all-or-nothing institution “will ensure later on that there is no dispute or concern in the parallel district court proceedings regarding the scope of estoppel under 35 U.S.C. § 315(e)(2).” *Ulthera, Inc. v. DermaFocus LLC*, No. 2018-1542 (Fed. Cir. May 25, 2018).

In sum, the Federal Circuit has provided a helpful preview of how SAS will impact PTAB proceedings and related litigation. As an early proof of concept, there are currently three examples of district courts granting stays pending IPR expressly because the new all-or-nothing institution requirement will simplify issues for trial and clarify the scope of estoppels. *SPEX Technologies, Inc. v. Kingston Technology Corporation et al.*, No. 8:16-cv-01790 (C.D. Cal. May 16, 2018) (Selna, J.); *Wi-LAN, Inc. et al v. LG Electronics, Inc. et al.*, No. 3-17-cv-00358 (S.D. Cal. May 22, 2018) (Benítez, J.); *Huawei Technologies et al. v. Samsung Electronics et al.*, No. 3:16-cv-02787 (N.D. Cal. June 13, 2018) (Orrick, J.). These developments, in combination with the PTAB’s recent proposal to convert to the *Phillips* claim construction standard, suggest that stays will become increasingly common. 90 Fed. Reg. 21221 (May 9, 2018).

Practical points and strategic takeaways for involved parties

While *Oil States* did not alter the status quo with respect to the availability of post-grant proceedings, the Court’s discussion about the nature of patent rights and the IPR process may implicate certain other controversies, including challenges brought under the Due Process or Takings clauses and based on retroactive applicability of the AIA. In contrast, the impact of SAS has been immediate and has numerous practical and strategic implications – namely, it has made the institution stage more high-stakes and critical than ever before.

Viewed as companions, *Oil States* endorsed the PTAB as a venue for bringing post-grant validity challenges while SAS simultaneously limited the PTAB’s power to streamline the process using partial

institution. One natural consequence of this interplay may be that the PTAB starts to control its workload in other ways, for example, by reviewing entire petitions as a whole and exercising its considerable discretion to deny weak petitions outright. Indeed, the PTAB still has discretion to deny petitions even if it lacks discretion to pick and choose what to review. As a result, petitioners may need to bolster petition strength by challenging fewer claims per petition and increasing the number of petitions filed. In response, patent owners will need to assess strategies regarding whether to file and how to focus preliminary responses.

Practically speaking, SAS will test the balance between administrative efficiency and thoroughness. For example, there is also a growing number of examples where the PTAB will address only a single claim in its institution decision, as opposed to providing an exhaustive analysis of every claim. Another scenario highlighted by the Federal Circuit in *PGS* is that the PTAB may avoid addressing all grounds raised in its final decision by finding unpatentability on a single ground and then disposing of the rest as moot. This may result in serial remands from the Federal Circuit if, upon appellate review, the unaddressed grounds are no longer moot.

In sum, post-grant proceedings remain a critically important and highly efficient way to assess patent validity. Yet, these decisions have dramatically impacted their scope and contours. Parties must be prepared to adapt to these changes and the new institution calculus.

“Practically speaking, SAS will test the balance between administrative efficiency and thoroughness.”