

Supreme Court Upholds Inter Partes Reviews, Clarifies Rules of Proceedings

April 25, 2018

The Supreme Court issued two highly anticipated opinions addressing the constitutionality and required scope of IPR proceedings. In *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, Case No. 16-712, 584 U.S. ____ (2018), the court rejected Oil States' argument that IPR proceedings, and the cancellation of patent claims as a result of such proceedings, violate Article III of the Constitution and the Seventh Amendment. In *SAS Institute Inc. v. Iancu*, Case No. 16-969, ____ (2018), the court held that the PTO must address the patentability of every challenged claim in an IPR petitioner's petition, holding that the PTO director lacks discretion under the pertinent statutory framework to decline institution on certain claims and grant institution on other claims challenged in the same petition.

Oil States

Oil States sued Greene's Energy for patent infringement in federal district court. Near the close of discovery in district court, Greene's Energy petitioned the PTO to institute IPR on two of the claims in Oil States' patent. The PTO found that Greene's Energy had established a reasonable likelihood that the two challenged claims were invalid and instituted IPR. The district court issued a claim construction order and construed the challenged claims in a way that foreclosed Greene's Energy's invalidity arguments. Shortly thereafter, the PTO, after acknowledging the district court's decision, issued a contrary decision holding that Oil States' challenged patent claims were invalid as anticipated by the cited prior art. Oil States appealed to the Court of Appeals for the Federal Circuit, arguing that actions to revoke a patent must be tried in an Article III court before a jury.

While Greene's Energy's appeal was pending, the Federal Circuit issued its decision in *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284, 1288–93 (2015), which rejected the same constitutional arguments pressed by Oil States in its appeal. Thereafter, the Federal Circuit summarily affirmed the PTO's decision in Oil States' appeal. Oil States petitioned the Supreme Court, which granted certiorari.

The Supreme Court affirmed by a vote of 7–2. In the majority opinion, Justice Thomas explained that patents are "public franchises" that "did not exist at common law" but are "creatures of statute law." Slip op. at 7. Quoting Article I of the Constitution, the court noted Congress's power to "promote the Progress of Science and useful Arts" and described how Congress had properly exercised this power by delegating authority to the executive branch to grant patents, reexamine patents, and cancel patent claims. *Id.* at 8–10. The court distinguished cases from the 1800s cited by Oil States that characterized patent rights as "private" rights that must be adjudicated in federal courts. In doing so, the court quoted 35 U.S.C. § 261, which provides that, "[s]ubject to the provisions of this title, patents shall have the attributes of personal property." *Id.* at 11 (emphasis added). The court emphasized that, unlike the Patent Act in effect in the 1800s, patent rights are now "subject" to the provisions of the AIA that established IPR proceedings. *Id.* The court rejected Oil States' argument that patent invalidity must be decided by a jury because, "when Congress properly assigns a matter to adjudication in a non-Article III tribunal, the Seventh Amendment poses no independent bar to the adjudication of that action by a nonjury factfinder." *Id.* at 17 (internal quotes omitted). Finally, the court noted the narrowness of its decision by explaining that it did not address other potential challenges to the IPR process under the Due Process Clause and the Takings Clause.

SAS

SAS sought an IPR of ComplementSoft's software patent, alleging that all 16 of the patent's claims were unpatentable. The PTO determined that SAS was likely to succeed in proving that at least one claim of the challenged patent was invalid and instituted review, but only as to claims 1 and 3–10. The PTO denied review of the remaining claims under a PTO regulation permitting "partial institution" of IPRs. At the end of the proceeding, the PTO held that claims 1, 3, and 5–10 were unpatentable and upheld the patentability of claim 4. The PTO's final written decision did not address the remaining claims on which the PTO had refused review.

SAS appealed to the Federal Circuit, arguing that 35 U.S.C. § 318(a) requires the PTO to decide the patentability of *every* claim challenged in an IPR petition. The Federal Circuit rejected SAS's argument, upholding the PTO's partial institution regime. SAS petitioned the Supreme Court, which granted certiorari.

In a 5–4 decision, the Supreme Court reversed. Justice Gorsuch's majority opinion relies almost entirely on the statutory text and structure in holding that "the plain text" of 35 U.S.C. § 318(a) mandates that "the Board *must* address *every* claim the petitioner has challenged." SAS slip op. at 4–6; see also 35 U.S.C. § 318(a) ("If an inter partes review is instituted and not dismissed under this chapter, 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 and any new claim added under section 316(d)."). Therefore, "[b]ecause SAS challenged all 16 claims of ComplementSoft's patent," the PTO was required to "address the patentability of all 16 claims" in its final written decision. *Id.* at 5. The court noted Congress's deliberate choice in drafting the provisions establishing IPR proceedings to depart from the statutory language establishing *ex parte* reexamination proceedings, which set up a "claim-by-claim and ground-by-ground basis" for institution of such proceedings. *Id.* at 6–8. The court disagreed with the PTO's argument that its partial institution regime was entitled to *Chevron* deference by finding no ambiguity in the relevant statutes. Finally, the court rejected the PTO's argument that *Cuozzo* and 35 U.S.C. § 314(d) – which states that the PTO's decision to institute an IPR is "final and nonappealable" – prevented judicial review in this instance because the Director's "partial institution" practice was clearly "in excess of statutory jurisdiction, authority, or limitations." *Id.* at 12–14.

Implications

The *Oil States* decision preserves the vitality of IPR proceedings in the face of the particular constitutional challenges presented by *Oil States*. However, the Supreme Court left undecided certain constitutional questions about IPR proceedings, including "whether *inter partes* review would be constitutional without any sort of intervention by a court at any stage of the proceedings" (referring to the fact that the Patent Act provides review of IPRs by the Federal Circuit). See *Oil States* slip op. at 16. The Supreme Court also explained that *Oil States* should not be read as addressing challenges to the retroactive application of IPRs to patents that issued before such proceedings existed or other challenges under the Due Process Clause or the Takings Clause that were not considered by the court. *Id.* at 17.

Similarly, *SAS* left for another day the question of whether *Chevron* deference will survive future scrutiny from the court. The PTO raised a policy argument about the efficiency benefits of its partial-institution regime, which permitted the PTO to focus on the most promising challenges and avoid spending time and resources on others. In Justice Ginsburg's dissent, she raised the possibility that, given these concerns, the PTO may be more inclined to simply deny petitions altogether to force petitioners to file new petitions that remove challenges the PTO points out as lacking in the institution decision. Alternatively, the PTO may be forced to issue less-detailed institution decisions. Another significant takeaway from *SAS* is that § 314(d), as interpreted in the Supreme Court's *Cuozzo* decision, does not preclude all challenges to the PTO's handling of institution proceedings.

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