

High Court Raises The Stakes At PTAB

By **Justin Philpott** and **Eric Zelepugas** (April 27, 2018)

In a 5-4 decision rejecting the Patent and Trademark Appeal Board's practice of partial institutions of inter partes reviews, the U.S. Supreme Court placed strict statutory interpretation over PTAB efficiencies. What will be the ultimate impact of this case? Time will tell. The PTAB has provided some recent guidance as to some immediate changes. But beyond that, the stakes may be raised to an all-or-nothing game.

Case Summary

SAS Institute Inc. filed a petition with the PTAB for an IPR on 16 claims of a ComplementSoft patent. The PTAB, working under a partial institution regulation,[1] instituted the IPR proceedings not on all 16 claims, as petitioned, but only on claims 1 and 3-10.[2] The PTAB issued a final written decision on claims 1 and 3-10, upholding claim 4 and finding claims 1, 3, and 5-10 unpatentable. Unable to appeal the PTAB's denial of institution as to claims 2 and 11-16,[3] SAS sought review at the Federal Circuit, arguing that the director exceeded his statutory authority because the PTAB must address all challenged claims in a final written decision.[4] The Federal Circuit held SAS' argument foreclosed[5] by a prior decision on this issue.[6] SAS appealed the issue to the Supreme Court.

The Supreme Court reversed the Federal Circuit on the application of § 318(a). Delivering the majority opinion, Justice Neil Gorsuch reasoned reversal was appropriate "[b]ecause everything in the statute before us confirms that [a petitioner] is entitled to a final written decision addressing all of the claims it has challenged and nothing suggests we lack the power to say so." [7] The majority opined that the decision for instituting an IPR is a binary one, i.e., institute for all claims challenged or deny institution.[8] "Congress chose to structure a process in which it's the petitioner, not the Director, who gets to define the contours of the proceeding." [9]

In a dissenting opinion, Justice Ruth Bader Ginsburg noted a possible outcome of the majority decision may be that the PTAB could increase institution denials, and questioned, "Why should the statute be read to preclude the Board's more rational way to weed out insubstantial challenges?" [10] In another dissenting opinion, Justice Stephen Breyer argued that, while the majority reads "in the petition" into Section 318(a) (to preclude partial institutions), it could be equally plausible to, instead, read "in the inter partes review proceeding" into Section 318(a) (that could have allowed partial institutions). [11]

Now that SAS has precluded partial institutions of IPRs, where do we go from here?

What's Next?

The practical effect of this case is that the PTAB must now institute an IPR on all challenged claims, or deny institution. It follows that all such challenges in an IPR will be addressed in a final written decision and, as a result, they will also be appealable to the Federal Circuit. Moving forward, the PTAB will evaluate claims that, in the past, were not instituted because



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they did not separately satisfy the reasonable likelihood standard. But, will the same drive for efficiency in earlier partial institutions lead the PTAB to other shortcuts?

Now that the SAS decision has removed what some referred to as a rational means for IPR efficiency, a number of possible results may follow. Could it lead to an increase in denials of IPR petitions, an increase in IPR petitions filed (e.g., splitting strong and weak claims of the same patent), an increase in district court litigation stays, greater risk of estoppel, and/or an increase in appeals of PTAB decisions to the Federal Circuit? Or, will the outcome show little more than an "efficiency shift": from the old efficiencies of a partial institution to new efficiencies of a final written decision with more claims upheld on cursory explanations? These potential outcomes are explored below.

One impact of the prohibition on partial institution may be more denials. The PTAB has discretion to institute an IPR when there is a reasonable likelihood that the petitioner would prevail on at least one challenged claim.[12] In order to maintain IPR efficiency and continue to satisfy statutory deadlines, it is conceivable that the PTAB may end up denying petitions deemed "inefficient," e.g., if many (but not all) challenges are deemed frivolous or particularly weak. For example, an IPR petition with a number of claims lacking a reasonable likelihood of success may "poison the well," even where at least one claim has a reasonable likelihood of success. The director has already articulated that institution of an IPR is not required after finding a reasonable likelihood of success with respect to one claim, thereby hinting at this potential outcome.[13] Thus, without the option of partial institution, the PTAB may increase the number of IPR denials as a countermeasure. Alternatively, the PTAB may maintain a similar institution-to-denial ratio post-SAS, while addressing claims in summary fashion that it would have otherwise left out in a pre-SAS partial institution. While the PTAB has made clear in recent guidance that it will "institute as to all claims or none,"[14] it remains to be seen how the PTAB will do so with the efficiency necessary to satisfy statutory deadlines.

We can also expect to see changes by petitioners. Whether a result of increased IPR denials or an anticipation thereof, petitioners may opt to challenge only the claims deemed to have a high likelihood of success of invalidation. One reason may be that if weak claims are instituted, petitioners will be estopped from being able to challenge the validity of such claims before the U.S. Patent and Trademark Office, in a civil case, or at the U.S. International Trade Commission on any ground that the petitioner raised or reasonably could have raised during the IPR.[15] Another reason may be that petitioners will more often opt to split their patent challenges into multiple petitions, keeping stronger challenges together while reserving weaker challenges to secondary petitions so as not to jeopardize institution of the primary challenges in this new all-or-nothing IPR institution landscape. In turn, we may see an increase in IPR filings due to an increased use of the multiple-petitions-per-patent approach. In some instances, we may also see shorter petitions with fewer challenged claims. With a greater risk of estoppel, now that all challenged claims must be included in the final written decision, and with uncertainty about institution decisions for petitions including both strong and weak challenges, the average petition may be in for a change post-SAS.

We also may see the PTAB and petitioners take an iterative approach — another issue subject to hot debate among the PTAB bar. A petition challenging all claims of a patent may be met with a PTAB institution decision that telegraphs which claims will be upheld, or a PTAB denial that suggests a fewer number of challenges may have merited institution. Petitioners who file early enough may be able to strategically file new or amended petitions in response, provided that statutory filing deadlines are met.[16] What some have argued was a rational efficiency, partial institutions of the past may be replaced with the less

efficient games of guess-and-check or serial IPR petitions.

Patent owners, too, may adjust. Patent owners may find that the fastest road to denial of a petition is a preliminary response with a strong attack on the weakest links. After all, in an all-or-nothing game, if the patent owner can show many of the challenged claims to be frivolous, PTAB judges may be more inclined to deny institution to conserve their limited resources for petitions having more meritorious claims.

For those IPRs that are instituted, stays in parallel district court litigation may increase. Prior to SAS, partial institutions could justify continuing litigations despite the IPR, especially for cases with a number of challenged claims that were not instituted by the PTAB. However, now that all challenged claims will be subject to a final decision, if those same challenged claims in the IPR mirror the asserted claims in district court, a district court judge would appear more likely to stay corresponding litigation while awaiting a final written decision from the PTAB and the estoppel that comes with it. In addition, a district court judge may be more willing to stay a district court case later in the case (within statutory limits)[17] now that an institution decision will necessarily address all challenged claims.

While more patent litigations may pause in district court, the Federal Circuit may see an uptick. Partial institutions limited the number of claims on appeal, precluding noninstituted challenges because only claims receiving a final written decision could be appealed.[18] Post-SAS, all final written decisions will now address all challenged claims (even those that may be deemed frivolous), and as a result, both the patent owner and the petitioner are provided the opportunity for an appeal on all such claims. Thus, in addition to potentially increased workloads at the PTAB, the Federal Circuit may find itself with more appeals from PTAB decisions.

PTAB Guidance

For new IPR petitions, recent PTAB guidance is clear: "As required by the decision, the PTAB will institute as to all claims or none." [19]

But what about pending IPRs that have had partial institutions? For these, the PTAB will "continue to assess the impact of this decision on its operations." [20] And, at least for now, the PTAB may take it a step further, from addressing all challenged claims, to addressing all challenges period: "At this time, if the PTAB institutes a trial, the PTAB will institute on all challenges raised in the petition." [21] It remains to be seen whether the PTAB will, in fact, consistently address all grounds raised in a petition as part of its "all challenges" commitment. But if so, PTAB judges and parties alike may be forced to play a game of catch-up on noninstituted grounds in pending IPRs. Anticipating these challenges, the PTAB guidelines require that the parties "shall meet and confer to discuss the need for additional briefing and/or any other adjustments to the schedule," unless the parties "agree to affirmatively waive additional briefing or schedule changes." [22]

While specific procedures in addressing noninstituted challenges may remain a work in progress, the PTAB has made clear that, at least for now, "final written decision[s] will address, to the extent claims are still pending at the time of decision, all patent claims challenged by the petitioner and all new claims added through the amendment process." [23]

Much remains to be seen of the impact SAS will have on patent validity challenges. But the game has changed, and all players need to adjust.

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[1] 37 CFR § 42.108(a)

[2] The PTAB declined to institute as to claim 2 based on a failure to show the proposed art combination had a reasonable likelihood of prevailing; and the PTAB declined to institute as to claims 11-16 due based on a failure to identify corresponding structure for construing means-plus-function phrases. IPR2013-00226, Paper 9 at 11, 19 (PTAB Aug. 12, 2013).

[3] *Cuozzo Speed Technologies, LLC v. Lee*, 136 S.Ct. 2131 (2016).

[4] 35 U.S.C. § 318(a)

[5] *SAS Institute, Inc. v. ComplementSoft, LLC*, 825 F.3d 1341, 1352 (Fed. Cir. 2016).

[6] *Id.* (citing *Synopsys, Inc. v. Mentor Graphics Corp.*, 814 F.3d 1309 (Fed. Cir. 2016)). Banner & Witcoff represented Mentor Graphics Corp., both before the PTAB for the IPR at issue and at the Federal Circuit.

[7] Slip op. at 14.

[8] Slip op. at 14.

[9] *Id.* at 6.

[10] Slip op. Ginsburg dissent at 1.

[11] Slip op. Breyer dissent at 1.

[12] 35 U.S.C. § 314(a) ("The Director may not authorize an inter partes review to be instituted unless the Director determines that the information presented in the petition filed under section 311 and any response filed under section 313 shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.")

[13] Slip op. at 8 (citing 35 U.S.C. § 314(a))

[14] Guidance on the Impact of SAS on AIA Trial Proceedings (April 26, 2018).

[15] 35 U.S.C. § 315(e).

[16] See 35 U.S.C. § 315(b).

[17] Id.

[18] *Cuozzo*, 136 S.Ct. 2131.

[19] Guidance on the Impact of SAS on AIA Trial Proceedings (April 26, 2018).

[20] Id.

[21] Id.

[22] Id.

[23] Id.