



SUPREME COURT FINDS USPTO'S ADMINISTRATIVE PATENT TRIALS CONSTITUTIONAL AND SETS GROUND RULES FOR THEIR CONDUCT BY THE PTAB

On April 24, 2018, the United State Supreme Court issued decisions in two cases which will solidify the role that post-grant proceedings under the America Invents Act (“AIA”) will play in the conduct of patent enforcement litigation in the United States. Under the AIA, issued U.S. patents (both design and utility) may be subject to *Inter-Partes* Review (“IPR”) and Post-Grant Review (“PGR”), which are administrative trial proceedings conducted by the USPTO’s internal Patent Trial and Appeal Board (“PTAB”) that take a “second look” at the patentability of the claims of the issued patents in view of the prior art (in the case of an IPR), or any other legal ground for patentability (in the case of the PGR). Ordinarily, issued patents are given a legal presumption of validity under 35 U.S.C. 282, which requires that clear and convincing evidence be presented to a U.S. federal court that the patent’s claims are not patentable before that patent may be invalidated, which is a high standard of proof to meet.

However, an issued patent is not given this presumption of validity when the patentability of its claims is reviewed internally by the USPTO under the AIA’s IPR and PGR processes. Instead, the patent’s claims must be proven unpatentable by a mere preponderance of the evidence, *i.e.* that it is more likely than not that the patent’s claims are unpatentable, which is a lower standard to meet. Also, the decisions on the validity of a patent’s claims is made by the PTAB in the IPR and PGR proceedings, while such validity decisions are made by a judge or jury in Federal District Court.

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Because of these differences (and others), many defendants to Federal Court patent infringement litigations have filed over eight thousands of requests for the institution of IPR or PGR proceedings with the PTAB since the AIA went into effect, in order to take advantage of the lower standard of proof, in an effort to invalidate the patent's claims without having to undertake the time, expense and risk of a trial in Federal District Court. As will be discussed below, many of these defendants have been successful in convincing the PTAB to find the claims of the subject patents unpatentable, and therefore to cancel the issued patents, which in many cases has ended the Federal Court litigation in favor of those defendants.

This trend has caused patent owners who have had their property rights extinguished by the PTAB to challenge whether the IPR and PGR processes comply with the U.S. Constitution, in particular Article III, which requires that matters arising under federal law must be decided by a Federal Court. Such proceedings in Federal Court bring with them a right to have the matter decided by a jury under the Seventh Amendment of the Constitution. This would apply to the validity of a U.S. patent, whose patentability is determined according to Title 35 of the United States Code.

Oil States Energy Services, LLC v. Greene's Energy Group, LLC

The Supreme Court decided these Constitutional issues in *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, in which the Court held that the IPR and PGR processes did not violate either Article III or the Seventh Amendment.

The Court began its discussion of these issues by reviewing the federal statutory requirements for patenting that the claimed invention be “new, useful and nonobvious.” The Court also noted that since 1980, the U.S. Congress has created administrative processes within the USPTO that have allowed that agency to reconsider and cancel the claims of an issued patent if it determines that it was wrongly granted, typically based on the prior art. Such proceedings included “*ex parte* reexamination,” where anyone at any time (even the patent owner and the Director of the USPTO) can request that the USPTO reexamine an issued patent based on the prior art, if the USPTO determines that there is “a substantial

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new question of patentability” for any claim of the patent. This reexamination follows the same process that was followed when the patent application was given its initial examination. *Ex parte* reexamination still exists today. In 1999, Congress added an “*inter-partes* reexamination” procedure, which followed the same general procedures as an *ex parte* reexamination, but it allowed the requesting party and the patent owner to participate more fully in the reexamination by allowing them to file responses to each other’s arguments, and to the positions taken by the Examiner during the reexamination. The *inter partes* review procedure was discontinued and replaced by IPRs and PGRs when the AIA went into effect. These procedures withstood previous constitutional challenges.

In the case of an IPR, which was the procedure that was at issue in *Oil States*, any person other than the patent owner can file a petition for *inter partes* review. The petition can request cancellation of “1 or more claims of a patent” on grounds that the claim fails the novelty and nonobviousness standards for patentability, “only on the basis of prior art consisting of patents or printed publications.” If a petition is filed, the patent owner has the right to file a response explaining why an IPR should not be instituted. The PTAB then decides whether to institute an IPR, based on whether “there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claimed challenged.”

Once instituted, the validity of the patent’s claims is examined by the PTAB, which hears the case as a three-member panel of administrative patent judges. The PTAB supervises an administrative trial proceeding, where the parties are entitled to conduct limited discovery regarding the issues of patent invalidity, file pleadings, motions and legal memoranda, and to conduct an oral hearing before the PTAB. The petitioner has the burden of proving that the patent claims are not patentable by a preponderance of the evidence. The patent owner has the right to file a motion to amend the patent by voluntarily canceling a claim, or by “proposing a reasonable number of substitute claims.” The patent owner may also settle with the petitioner by filing a written agreement prior to the PTAB’s final decision in the case, which terminates the proceedings with respect to that petitioner.

If the case proceeds to a decision by the PTAB, and that decision becomes final, the USPTO must issue a certificate cancelling any patent claims that have been determined to be unpatentable, confirming patent claims determined to be patentable, and incorporating into the patent any new or amended claims submitted by the patent owner that were determined to be patentable. Whereas litigation of the issues of patent infringement, validity and damages in Federal District Court may take several years, the PTAB must render its decision within one (1) year of instituting the IPR or PGR (although a six-month extension of this deadline may be granted for good cause). A party that is not satisfied with the PTAB’s decision may appeal it to the U.S. Court of Appeals for the Federal Circuit.

In *Oil States*, the issue of what entity had the Constitutional authority to declare the claims of an issued U.S. patent valid or invalid was directly joined. *Oil States* had sued Greene’s Energy in Federal District Court for infringing its U.S. patent that was directed to an apparatus and method for protecting oil well-head equipment used in hydraulic fracking. Greene’s Energy defended by asserting that the patent’s claims were invalid. Near the close of discovery in the District Court case, Greene’s energy filed a petition for IPR with the PTAB, arguing that two of the patent’s claims were unpatentable due to anticipation by prior art that was not previously considered during the original prosecution of the patent application before the USPTO. The PTAB instituted the IPR.

The District Court case continued while the IPR was pending. The District Court issued an order construing the claims of the Oil States patent in a way that prevented Greene’s Energy from continuing its arguments about the prior art. In spite of this, a few months later the PTAB issued a final written decision in the IPR finding that the Oil States patent’s claims were unpatentable. Although the PTAB acknowledged the District Court’s contrary decision, it nonetheless concluded that the patent’s claims were anticipated by the prior art, as Greene’s Energy had argued. Oil States appealed the PTAB’s decision to the Federal Circuit, which rejected Oil State’s argument that the U.S. Constitution requires that the issue of patent invalidity must be tried before a jury in an Article III Federal District Court.

Oil States then petitioned the Supreme Court for *certiorari* based on the same constitutional arguments. The Supreme Court first determined that an IPR falls within the “public rights doctrine,” which holds that the decision to grant a U.S. patent is a matter involving public rights (*i.e.*, between the government and others). A patent is considered a grant of a public franchise to the patent owner, which takes from the public rights of immense value and gives them to the patent owner in the form a right to exclude all others from making, using, offering for sale or selling the invention throughout the U.S. The Court considered IPR to simply be a reconsideration of that grant, and Congress has preserved the authority of the USPTO to conduct that reconsideration. The USPTO can do this without violating Article III of the U.S. Constitution, even though the patent grant is recognized as a private property right, because granting patents is one of “the constitutional functions” that can be carried out by “the executive or legislative departments” without “judicial determination.” Article I of the Constitution gives Congress the power to determine how patents are to be granted, and therefore it has the power to determine whether and under what circumstances the franchise represented by the patent may be revoked. The Seventh Amendment right to a jury trial does not prevent Congress from assigning responsibility for adjudicating a matter to a nonjury factfinder outside the Federal Courts. Therefore, the Court concluded that the exercise of the judicial power by the Courts is not the exclusive means by which this franchise may be revoked.

As a result of the Supreme Court’s decision in *Oil States*, IPRs and PGRs will continue to be potent weapons in the arsenal of a patent infringement defendant. The fact that they have been such an effective tool for short-circuiting many patent owners’ efforts to enforce their patents in Federal Court is proven by the outcomes of those IPRs and PGRs, for both utility and design patents once they are instituted.

According to the USPTO’s own statistics, since September 2012 there have been a total of 8210 petitions for administrative review of U.S. patents by the PTAB.¹ Of those petitions, 92% were petitions for IPR, while only 1% have been petitions for PGR. In general, more than half of those petitions involved patents in the electrical or computer arts, around 20% involved patents in the mechanical and business method arts, 15% involved biotechnology and pharmaceutical patents and less than 10% involved chemical patents. Few petitions are filed each year for design patents. On average, about 85% of patent owners file preliminary responses to the petition. However, the rate at which trial proceedings have been instituted by the PTAB has been gradually trending downward from 87% in late 2012 to 62% in the current fiscal year.

The institution rate for each category of technology that the patents cover has consistently been above 60%, with the exception of design, whose institution rate is 43%. The rate at which challenges have been settled prior to a final written decision has averaged round 14% if the settlement occurred pre-institution, while the settlement rate for challenges post-institution has dropped significantly from 90% in FY2013 to the present 21%, after leveling off in the low 20% range for the past three fiscal years.

After a petition is instituted and the case proceeds to a final written decision, the PTAB has found that no patent claims are unpatentable (so that the patent is confirmed without any changes) in only 19% of cases. The PTAB has found that some of the patent claims being challenged were unpatentable in 16% of cases, and all of the claims being challenged were found unpatentable in 65% of cases. Therefore, in 81% of the cases that the PTAB has decided, at least one (1) patent claim has been found unpatentable.

An analysis of IPRs and PGRs in design patent cases was presented on April 25, 2018 at the USPTO's Design Day conference. Since 2015, there have been 109 decisions of the PTAB that involved design patents, 10% of which involved anticipation of the design claim by prior art references under 35 U.S.C. 102; 75% involved the alleged invalidity of the design claim for obviousness in view of the prior art under 35 U.S.C. 103; 10% involved defects in the written description of the design, or its lack of enablement or indefiniteness under 35 U.S.C. 112, and 12% involved issues of lack of ornamentality or protectable design subject matter under 35 U.S.C. 171.

Of the design patent IPRs that were filed, 43% were instituted by the PTAB, while 57% were denied institution, because they failed to raise an issue regarding patentability that had a reasonable probability of succeeding. When an IPR is not instituted, the design patent survives intact. Once an IPR is instituted, however, 71% of the design patent claims at issue were found to be unpatentable. With respect to PGRs, only three (3) were granted institution, one (1) was denied institution and one (1) case settled.

Therefore, with respect to both utility and design patents, if an IPR or PGR is instituted and is not settled before a written decision, there is a high probability that one or more of the patent claims at issue will be found unpatentable.

SAS Institute, Inc. v. Iancu, Director, United States Patent and Trademark Office

On the same day that it decided *Oil States*, the U.S. Supreme Court issued ground rules for use by the PTAB when it makes its determination of whether to institute an IPR or PGR. In *SAS Institute, Inc. v. Iancu*, the Supreme Court considered whether the PTAB may institute an IPR for less than all of the patent claims for which review was requested in a petition. That is, when the PTAB initiates an *inter-partes* review, must it resolve **all** of the claims that the petitioner included in the case, or may it choose to limit its review to only **some** of them? Such IPRs are conducted according to the authority granted by the U.S. Congress in the AIA. Under 35 U.S.C. 318(a), the PTAB must “issue a final written decision with respect to the patentability of **any** patent claim challenged by the petitioner.” In the context of this statute, the Supreme Court ruled that the term “any” claim means “every claim.” According to the Supreme Court, the USPTO cannot pick and choose which of the claims that have been challenged in a petition it will decide and which it will not decide. It must decide them all.

As discussed in the context of the *Oil States* case above, IPRs resemble civil litigation in Federal District Court. A party who wishes to challenge the validity of an issued U.S. patent through the IPR procedure must file a petition with the PTAB which “may request to cancel as unpatentable 1 or more claims of [the] patent” on the ground that the claims are obvious or not novel (*i.e.*, are anticipated) by the prior art. In doing so, the petition must identify “each claim challenged,” the grounds for the challenge, and the evidence supporting the challenge. The patent owner then has the right to file “a preliminary response to the petition” explaining “why no inter partes review should be instituted.” The PTAB then decides on behalf of the Director of the USPTO whether to institute an IPR based on the evidence and legal arguments presented in the petition and response. In order to institute an IPR, the PTAB must determine, based on the parties’ papers, “that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.” *See* 35 U. S. C. §314(a). Once the PTAB institutes an IPR, the matter is conducted much like other types of litigation.

The *SAS Institute* case arose when SAS petitioned for review of ComplementSoft’s software patent. SAS alleged that all 16 of the patent’s claims were unpatentable based on various grounds. Although the PTAB on behalf of the Director concluded that SAS was likely to succeed with respect to “at least one of the claims” and instituted an IPR, the PTAB did not institute review on all of the patent claims that had been challenged. The PTAB instituted review only on Claims 1 and 3-10, and denied review of the rest. The PTAB did so based on an internal USPTO regulation that authorized “partial review,” which permitted the Director to authorize review on all or some of the of the grounds of unpatentability that had been asserted for each claim. At the end of the IPR litigation, the PTAB issued a final written decision finding that Claims 1, 3 and 5-10 were unpatentable, while Claim 4 was patentable. The PTAB’s final written decision did not address the remaining claims of the patent that had been refused review.

SAS appealed the PTAB’s decision to the U.S. Court of Appeals for the Federal Circuit, where it argued that Section 318(a) of the AIA required the PTAB to decide the patentability of *every* claim that SAS had challenged in its petition, not just some of those claims. The Federal Circuit upheld the PTAB’s decision, and found that the PTAB was not required by the AIA to decide every claim that was stated in the petition. SAS then filed a petition for *certiorari* to the U.S. Supreme Court.

In reviewing the Federal Circuit’s decision, the Supreme Court was asked to interpret the meaning of Section 318(a) of the AIA. The Supreme Court found that the text of Section 318(a) had a plain meaning that was clear on its face. According to the Supreme Court, Section 318(a) mandated that the PTAB “*must* address *every* claim the petitioner has challenged.” (Emphasis in original). Therefore, since SAS had challenged all 16 claims of the patent, the PTAB’s final written decision must address the patentability of all 16 claims. Section 318(a) only gives the PTAB the choice of “whether” to institute a review, or not based on the petition. Nothing in Section 318 gives the Director of the USPTO the power to selectively institute review of less than all of the claims whose patentability was challenged in the petition. As long as the Director/PTAB finds that the petitioner is likely to succeed on “at least 1” claim, the Director/PTAB *may* institute an IPR, but if it does so, then it must institute an IPR with respect to the entire petition. The Court reasoned that Congress intended for the petitioner, not the Director of the USPTO or the PTAB to control which claims are challenged, and which claims receive a final determination regarding patentability.

GUIDELINES ISSUED BY THE USPTO AND PTAB FOR IMPLEMENTING THE DECISIONS IN *OIL STATES* AND *SAS INSTITUTE*

On April 26, 2018, the USPTO issued its guidance on the impact of the decision in *SAS Institute*. This guidance was intended to clarify the rules of procedure for the administrative review of issued patents under the AIA with respect to both newly-filed petitions, and petitions which have already been filed and which have received a decision from the PTAB concerning whether an IFR or PGR will be instituted. The USPTO confirmed that as required by the Supreme Court’s decision, the PTAB will institute a trial in an IPR and PGR based on all of the claims set forth in a petition or none. That is, if the PTAB institutes a trial, it will do so with respect to all challenges raised in the petition. If the PTAB denies institution, it will do so with respect to all claims as well. This will apply to new petitions for review that are filed, as well as those currently-pending petitions that have not yet received a decision on institution.

The guidelines also described the procedures that will be followed with respect to IPRs and PGRs for which a trial proceeding has already been instituted, depending on which stage of the proceeding the case is currently at. If the PTAB has already instituted a trial on all of the challenges that were raised in the petition, then the panel will continue with the trial proceeding in the normal course. However, for any IPRs and PGRs for which a panel of the PTAB has instituted a trial proceeding with respect to only some of the challenges raised in the petition, then the panel may issue an order supplementing its institution decision in order to institute all challenges that were originally raised in the petition.

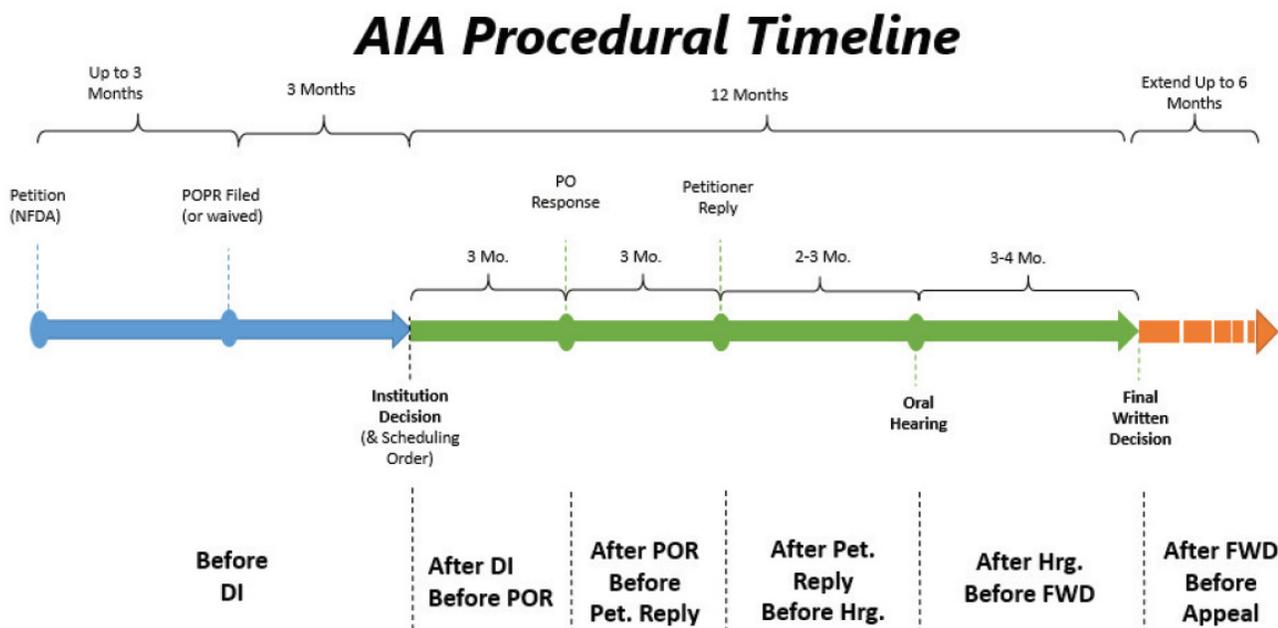
In cases in which the PTAB enters an order supplementing the institution decision to include all challenges, then the PTAB is authorized to take further necessary actions to manage the conduct of the trial proceeding so that it is fair to the parties. This may include permitting additional time to complete required tasks, such as legal briefing, discovery, oral argument at trial, and other accommodations with respect to the additional claims that will be joined to the case.

When the petitioner and patent owner receive an order from the PTAB supplementing the institution to include all claims, they are directed by the USPTO’s guidance to “meet and confer” to discuss the need for additional briefing and/or any other adjustments to the schedule. If the parties determine that no additional time, briefing or discovery are required, then the trial proceeding may continue according to the original schedule, at the discretion of the PTAB. The parties may also decide to waive any additional briefing or schedule changes. After meeting and conferring, the parties are further directed to contact the PTAB to discuss any requested additional briefing or schedule changes that may affect the trial proceeding. Although the USPTO expects the parties to act cooperatively with respect to schedule accommodations, any remaining disputes will be addressed in a conference call with the PTAB panel that is managing the case.

Finally, the USPTO’s guidance confirms that the final written decision of the PTAB in each case will address all patent claims that have been challenged by the petitioner that are still pending at the time of the decision, and all new claims added through the amendment process.

On April 30, 2018, the Chief Judges of the PTAB conducted a presentation in which they described the actions that the PTAB would take in order to implement the Supreme Court’s *Oil States* and *SAS Institute* decisions and the USPTO’s guidance at each stage of the trial proceeding, particularly with respect to proceedings that have already been instituted. This should provide litigants with practical guidance on what steps they must take in order to protect their interests in light of the Supreme Court’s decisions.

The PTAB’s presentation included a sample time line for a typical trial proceeding.



The PTAB confirmed that if a trial proceeding has already been instituted with respect to all challenges set forth in a petition, then the case will proceed as normal. If the panel has denied the institution of a trial proceeding on the challenges stated in the petition, then no additional action is necessary. However, if the PTAB has instituted a trial proceeding on only some of the challenges set forth in the petition, the parties were given a choice. They can allow the PTAB to issue a supplemental order instituting the proceeding on all challenges, or they can submit a joint request to the PTAB asking that the proceeding be terminated. The PTAB may issue its supplemental order instituting on all challenges, or conduct a hearing on the additional claims and grounds stated in the petition at any time before a final written decision of the PTAB is appealed to the U.S. Court of Appeals for the Federal Circuit.

If a trial proceeding has already been instituted with respect to only some of the claims and grounds in the petition, and the PTAB then issues a supplemental order instituting with respect to all claims and ground presented in the petition, then the parties are directed to meet and confer with respect to whether they need additional time for the patent owner to respond to the petition (and for the petitioner to reply to that response), or any additional time to submit additional briefing and/or evidence and conduct hearings regarding the new claims and grounds, and any extension of any procedural deadline, such as for concluding

discovery. If the PTAB issues its supplemental institution order later in the proceeding, then the patent owner and petitioner may request leave to supplement their respective responses and replies to the petition.

If the PTAB issues its supplemental institution order after the response and reply to the petition have been filed, but before the hearing of the case, then the parties may request a conference call with the PTAB panel to discuss any additional briefing or the submission of any additional evidence that may be required to address the additional claims and/or grounds. The petitioner will be permitted to respond to the patent owner's additional briefing, but it must request authorization from the PTAB before it files any additional evidence. Adjustments to any remaining procedural deadlines set forth in the scheduling order may be addressed as necessary, including the hearing date.

If the PTAB issues its supplemental institution order after the hearing of the case, but before it issues its final written decision, then the parties may request a conference call with the PTAB panel to discuss any additional briefing, the submission of any additional evidence or any supplemental hearing that may be required to address the additional claims and/or grounds. The petitioner will be permitted to submit responsive briefing and have a supplemental hearing, but must request authorization from the PTAB before filing additional evidence. The PTAB may also extend the 12-month statutory deadline for issuing its final written decision for up to another six (6) months on a case-by-case basis, for good cause shown.

If the PTAB issues its supplemental institution order after it has issued a formal written decision but before a request for rehearing is due, then either party may file a request for rehearing so that it may assert the decision in *SAS Institute*, and request a hearing of all claims and/or all grounds challenged in the petition. The PTAB may extend or waive the rehearing deadline entirely for this purpose.

Finally, if the deadline for a request for rehearing has passed, but an appeal to the Federal Circuit has not yet been taken, either party may request a conference call with the PTAB panel to discuss a rehearing and the submission of additional briefing and/or evidence to address additional claims and/or grounds from the petition that were not addressed in the final written decision. The PTAB may extend or waive the rehearing deadline entirely for this purpose.

Although in the short term, there may be some procedural disruptions and delays in currently-pending IPRs and PGRs, those administrative trial proceedings will continue to be utilized by accused patent infringers in order to challenge the validity of issued U.S. patents outside of Federal Court litigation.

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