

Sending Out an SAS: Analyzing the *SAS Institute Inc. v. Iancu* Decision

By Richard Hung and Rachel Silverman Dolphin

In a 5-4 decision, with four justices dissenting, the U.S. Supreme Court struck down the Patent Trial and Appeal Board (PTAB)'s practice of instituting review on only a subset of an *inter partes* review (IPR) petitioner's validity challenges. *SAS Inst., Inc. v. Iancu*, --U.S.--, 200 L.Ed.2d 695, 700 (2018) (*SAS*) (<http://bit.ly/2IzikiF>).

The case turned on the statutory interpretation of the Leahy-Smith America Invents Act. The specific statute at issue, 35 U.S.C. §318(a), provides: "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)."

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The question in *SAS* was whether the PTAB's final written decision must address all patent claims in a petition or whether the PTAB has discretion to only institute review on certain claims (meaning the final written decision would address only those.)

In an opinion authored by Justice Neil Gorsuch, the majority found the statute clear and unambiguous, while the dissent found it ambiguous. The majority determined that the word "any" meant "every," such that the PTAB did not have discretion to only review a subset of claims. Because the Court found the statute unambiguous, it did not defer to the United States Patent and Trademark Office (PTO)'s interpretation under the *Chevron* doctrine. See, *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U. S. 837 (1984) (<http://bit.ly/2IzzJlA>).

Despite finding the language unambiguous, the majority looked to a neighboring provision governing *ex parte* reexaminations and compared it with the language governing IPRs. Under the former regime, the PTO director is granted explicit discretion to initiate a particular *ex*

parte reexamination. The majority reasoned that, if Congress wanted to grant the PTAB this discretion for IPRs, it could have used the same language. The absence of such language supported the majority's view (albeit dicta) that Congress did not intend to provide the PTAB with this discretion.

The Court rejected the PTO's policy argument that its reading of the statute undermined the statutory intent, *viz.*, to promote efficiency at the PTAB and expedite the patent review system. Were the PTO required to analyze weak claims or challenges, the argument went, that would undermine the efficiency of the system. The Court rejected this argument as an issue for Congress.

THE DISSENTS

Justices Ruth Bader Ginsburg and Stephen Breyer both wrote dissents discussing the majority opinion's impractical results.

Justice Ginsburg noted that the PTAB now could deny petitions with claims likely to be unpatentable but simultaneously signal its views, thus encouraging piecemeal petitions on certain claims

or grounds. This process would be more expensive and time-consuming for the parties than the PTAB's prior process of partial institutions. As she succinctly observed: "Why should the statute be read to preclude the Board's more rational way to weed out insubstantial challenges?" *SAS*, 200 L.Ed.2d at 708.

Finding the statute ambiguous, Justice Breyer would have deferred to the PTO's "reasonable" interpretation. *Id.* at 709. He also found the practical results inefficient, in part because the Federal Circuit would have to review a decision on all petitioned claims. Justice Breyer deemed the majority's opinion "anomalous," as the PTAB's decision to institute review is discretionary and nonreviewable, but the Board now must issue a final written decision on all petitioned claims — even ones that are "near frivolous." *Id.* at 713.

SAS'S IMPACT: MUST THE PTAB INSTITUTE ON ALL GROUNDS?

While *SAS* clarified that the PTAB must either not institute at all or institute on all petitioned claims, an immediate question is what this decision means for challenged claims. Before this case, the PTAB often only instituted on certain grounds raised in the petition. For example, if the petitioner asserted that claim 4 was invalid as anticipated by reference A and was also invalid as obvious by B in light of C, the PTAB might choose only to institute on the obviousness ground. After *SAS*, practitioners wondered

where this practice stood, in large part because of its impact on estoppel.

Some language in *SAS* certainly suggests that the PTAB must institute on all challenged grounds (if any). For example, the majority opinion compared an IPR petition to a civil complaint, saying "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." 200 L.Ed.2d at 703. This suggests that the petition controls what grounds the PTAB must consider. But it is important to remember that the statute itself is silent as to grounds; instead, the statute discusses what must happen with "any patent *claim* challenged." 35 U.S.C. §318(a) (emphasis added). Especially given the majority's emphasis on the statute's plain language, *SAS* arguably should be read as limited to claims.

The PTO's initial reaction, however, was more conservative. According to its recent guidance on *SAS*, if it grants review, it will now institute on all claims and all challenged grounds. *See*, "Guidance on the Impact of *SAS* on AIA Trial Proceedings" (Apr. 26, 2018) (<http://bit.ly/2IzAkC5>). In a webinar titled "Chat with the Chief" on April 30 (<http://bit.ly/2IzF154>), the PTO confirmed that this means it will institute on and consider all challenges in a petition, at least for now. But the PTO was ambivalent as to whether *SAS* compelled this approach, noting instead that the PTO believed it was the best one.

HOW DOES THIS DECISION AFFECT ESTOPPEL AND STAY MOTIONS?

The practical considerations regarding estoppel and stays are many. For example, if a defendant challenges all claims, will it essentially be waiving its invalidity case in the district court? Should a defendant challenge fewer claims to limit its estoppel perspectives in district court? If a defendant does so, will that weaken its argument for a stay pending IPR? On the flip side, as the PTAB now must institute on all requested claims (if at all), can defendants strengthen the arguments for a stay if defendants challenge all claims asserted in the district court?

The estoppel effects of the PTAB's final written decision will likely force patent challengers to rethink their IPR strategies. A petitioner is estopped from re-asserting invalidity defenses that were raised, or reasonably could have been raised, in the IPR proceedings. 35 U.S.C. §315(e)(2). While, previously, a petitioner could assert a particular invalidity ground in the district court proceeding if the Board did not institute on it, now the petitioner will be estopped from making such arguments. It may behoove patent challengers not to file questionable IPRs, or at least questionable claims, as putting on an invalidity case is an important part of most defendants' district court strategies.

WILL INSTITUTION DECISIONS CHANGE?

Some practitioners note that PTAB institution decisions may

become less robust due to timing constraints and the requirement to institute on all claims now. Were this to occur, it is unclear whether this would be positive or negative overall. On the one hand, thorough institution decisions provide significant insight into the panel's views on the claims and grounds at issue, which can help both parties strategize and focus their arguments (and may encourage settlement). If the decisions are not as thorough, then the parties will be left to wonder about the relative persuasiveness of their arguments, and thus spend more time and money shoring up each argument. On the other hand, some worry that a thorough institution decision will entrench the panel in its preliminary views. This might not be ideal given the limited evidence and argument before the panel at that stage.

As to whether the practice of robust institution decisions will change, the PTO noted that panels have always had the discretion to decide what to include in their institution decisions. According to the PTO, *SAS* did not change that discretion. The Supreme Court in *SAS* even recognized that lengthy decisions are not necessary, explaining that "the Director need not even consider any other claim before instituting review" once the PTO has decided that the petitioner is likely to succeed on one claim. 200 L.Ed.2d at 704.

WILL PATENT HOLDERS BEGIN TO DISCLAIM?

Another potential outcome of *SAS* is that patent owners may begin to

disclaim claims most susceptible to an invalidity challenge. This currently occurs in covered business method (CBM) petitions, where patent owners sometimes disclaim the claims relating to financial products or services to make their patent ineligible for CBM review. Disclaiming relatively weak claims may make institution less likely, but may also limit the patent owner's infringement positions. Patent owners will need to weigh the disclaimer decision more carefully now in view of the different incentives.

HOW IMPACTFUL WILL THIS CASE REALLY BE?

In its webinar, the PTO estimated that *SAS* affects only about 20% of pending cases (*i.e.*, institutions where the PTAB agreed to review some, but not all, of the challenged claims). Of course, the case reaches far beyond that.

First, it will impact all institution decisions going forward. This has already occurred. In the institution decision in *Western Digital Corp v. Spex Technologies Inc.*, the panel indicated its belief that petitioner was likely to succeed only on two of the 11 asserted claims. Following *SAS*, it instituted on all 11 claims.

Second, it affects the 20% or so of pending partially instituted cases. Anyone with a pending review where only some claims were instituted should read the PTO's guidance, which explains the procedures for such cases.

Third, as *SAS* did not address retroactivity, the impact on partially

instituted cases that have already gone to a final decision remains to be seen. For the cases that are currently pending at the Federal Circuit, must the petitioner move to vacate the appeal and remand the case back to the PTAB for a final decision on all petitioned claims? Does the Federal Circuit even have jurisdiction over these appeals? For the cases in which the Federal Circuit's opinion has become final and non-reviewable, does the losing party have any options? For the parties that didn't appeal their initial PTAB loss, can they now move for re-institution in light of *SAS*?

CONCLUSION

There are many questions left, but the PTAB continues to work vigorously to issue further guidance on the case's impact. And Congress, of course, could moot *SAS* entirely by expressly granting the PTAB the discretionary power to institute partial reviews. It might do so to further its goal of creating an efficient patent review process and to reduce the burdens on the PTAB and Federal Circuit. All in all, *SAS*'s effects on the PTAB's procedures and workload will require that practitioners carefully assess pending and future IPR petitions.

