

Patent Litigation and Counseling

Supreme Court Upholds, and Changes, IPR Administrative Patent Challenges in *Oil States* and *SAS*

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On April 24, 2018, the Supreme Court issued decisions in *Oil States Services, LLC v. Greene's Energy Group, LLC*, and *SAS Institute Inc. v. Iancu*. In *Oil States*, the Court held that *inter partes* review (“IPR”), an administrative process by which the Patent and Trademark Office (“PTO”) reviews the validity of existing patents, does not violate Article III or the Seventh Amendment. This decision is consistent with the amicus brief filed by Jenner & Block for the PTAB Bar Association, which emphasized that IPR provides an important corrective measure to erroneous issuance of patents. However, while the Supreme Court’s *Oil States* decision leaves IPR intact, its decision in *SAS Institute* will change the IPR process by requiring the PTO to address *all* claims in an IPR petition it institutes, rather than picking and choosing.

I. Oil States

In *Oil States*, the Supreme Court held that IPR does not violate the Constitution. The Court’s decision leaves IPR intact as an important tool for patent defendants to invalidate weak patents.

A. Background

Oil States concerns IPR, a procedure for reviewing the validity of existing patents that Congress created as part of the landmark America Invents Act of 2012. Under that procedure, any party may petition the PTO to review an existing patent on the ground that the invention was not novel or was obvious in light of prior art. If the PTO’s Patent Trial and Appeal Board (“Board”) believes a reasonable likelihood exists that at least one of the challenges the petitioner raised will prevail, the Board conducts review. During the review process, both the petitioner and patent-owner may take discovery; file affidavits, declarations, and written memoranda; and request an oral hearing. Unlike a dispute litigated in federal court, however, the Board may issue a decision even after the petitioner settles or otherwise withdraws its petition. In addition, the Board’s authority is distinct from the authority of a federal court adjudicating an invalidity dispute. The Board may only affirm a patent’s validity or rescind an erroneously granted patent; unlike a federal court, it may not provide any individualized relief to the petitioner.

Oil States arose from a patent infringement dispute between Oil States Energy Services (“Oil States”) and Greene’s Energy Group (“Greene’s”). Oil States owns a patent for a tool that protects wellheads from corrosive fluids used in hydraulic fracturing (also known as fracking). In 2012, Oil States filed an infringement suit against Greene’s. Greene’s petitioned the PTO to institute IPR and re-examine its approval of Oil States’ patent.

In the IPR, the Board determined that the ’053 patent was invalid because it had been anticipated by a prior, previously undisclosed, patent. The Federal Circuit summarily affirmed. The Supreme Court granted certiorari to decide whether IPR violates the Constitution by extinguishing property rights through a non-Article III forum without a jury.

B. Supreme Court Decision

In a 7-2 decision by Justice Thomas, the Supreme Court affirmed the Federal Circuit’s decision and held that IPR did not violate the Constitution.

The question in *Oil States* was whether a dispute over the validity of a patent could be resolved by the Board, even though the Board is a non-Article III tribunal. The parties agreed that the PTO has the authority to decide whether a patent should be granted in the first instance. But Oil States argued that once a patent is granted, it becomes private property—thus requiring any dispute over ownership of that property to be resolved by an Article III court. Greene’s, joined by the

government, argued that patent rights fall within the so-called “public rights” exception to Article III, under which non-Article III tribunals may decide claims that are “integrally related to particular federal government action.” *Stern v. Marshall*, 564 U.S. 462, 490-91 (2011).

The Supreme Court agreed with Greene’s and the government, holding that patent rights are “public rights.” It observed that “the decision to *grant* a patent is a matter involving public rights—specifically, the grant of a public franchise.” The Court reasoned that because the right to grant a patent is a public right, the narrow decision to take “a second look at an earlier administrative grant” in IPR, therefore, is also a matter of public right. IPR, like the PTO’s initial review in granting a patent, “protects the public’s paramount interest in seeing that patent monopolies are kept within their legitimate scope.” The Court rejected Oil States’ attempt to analogize patent rights to private property rights. It emphasized that in conferring patent rights, Congress has the authority to limit the scope of those rights—and one of those limitations is the prospect of IPR.

The Court rejected Oil States’ contention that IPR was inconsistent with English practice at the time the Constitution was enacted. It noted that English law permitted individuals to petition the Privy Council, a group of the Crown’s advisers, to vacate a patent—a process similar to IPR. The Court was also unpersuaded by Oil States’ argument that IPR’s procedural similarity to litigation rendered it unconstitutional. It stated that “this Court has never adopted a ‘looks like’ test to determine if an adjudication has improperly occurred outside of an Article III court. The fact that an agency uses court-like procedures does not necessarily mean it is exercising the judicial power.” The Court also rejected Oil States’ Seventh Amendment argument, holding that the Court’s decision on the Article III question necessarily foreclosed Oil States’ Seventh Amendment claim.

The Court emphasized that its decision was narrow. It noted that it was not deciding the constitutionality of the retroactive application of the IPR procedure to patents that already existed at the time the IPR statute was enacted. It also noted that it was not resolving any due process objections to IPR.

Justice Gorsuch, joined by the Chief Justice, dissented. In his view, patent rights are more analogous to private property rights than public rights. Thus, he argued, Article III courts must adjudicate claims seeking to invalidate them. He characterized the Court’s decision as a “retreat from the promise of judicial independence” and stated that “when an independent Judiciary gives ground to bureaucrats in the adjudication of cases, the losers will often prove the unpopular and vulnerable.”

II. SAS Institute

Oil States established that IPR would survive—but a companion case, *SAS Institute*, established that IPR would change. Before *SAS Institute*, parties could petition the PTO to institute an IPR on multiple claims, and the PTO could institute review on some claims and decline review on others. *SAS Institute* abolished this practice by requiring the PTO to adjudicate the validity of all claims in any petition it had decided to institute.

A. Background

Whereas *Oil States* addressed the constitutionality of IPR, *SAS Institute* interpreted the statutes governing the IPR process. Those statutes authorize any person to file a petition seeking IPR on the ground that the challenged patent claims are obvious or not novel. 35 U.S.C. §311. After such a petition is filed, the PTO has the authority to decide “whether to institute an [IPR] ... pursuant to [the] petition. 35 U.S.C. §314(b). Before instituting review, the Board must determine “that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition.” 35 U.S.C. §314(a). And—critically—“[i]f an [IPR] is instituted,” the Board “shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner.” 35 U.S.C. §318(a).

SAS Institute arose when SAS Institute sought IPR of a software patent owned by an entity known as ComplementSoft. SAS Institute’s petition alleged that all 16 of the patent’s claims were invalid. The Board instituted the IPR on nine of the 16 claims challenged in the petition, and the Board ultimately found eight of those nine claims to be unpatentable. It did not, however, render any decision on the seven claims on which it declined to institute the IPR. SAS Institute appealed to the Federal Circuit, arguing that the Board’s failure to decide those seven claims violated the statutory requirement that the Board “shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner.” The Federal Circuit rejected SAS Institute’s argument.

B. Supreme Court Decision

In a 5-4 decision by Justice Gorsuch, the Supreme Court reversed. It found that “the plain text of §318(a) supplies a ready answer.” That statute requires that if the Board institutes the IPR, the Board “shall” decide the patentability of “any patent claim challenged by the petitioner.” The Court held that the statute imposed a mandatory requirement that the Board decide the patentability of every single patent claim, rather than a subset of those claims. The Court analogized an IPR to a civil complaint, in which courts must decide all claims raised by the plaintiff.

The Court also rejected the PTO’s policy argument that partial institution is “efficient because it permits the Board to focus on the most promising challenges and avoid spending time and resources on others.” It noted that SAS had advanced a contrary policy argument that “partial institution creates inefficiency by requiring the parties to litigate in two places instead of one,” and concluded that these policy arguments are “properly addressed to Congress.”

Justice Breyer, joined by Justices Ginsburg, Sotomayor, and Kagan, dissented, arguing that the statute was ambiguous and that the PTO had permissibly construed it to permit partial institution. Justice Ginsburg, joined by Justices Breyer, Sotomayor, and Kagan, filed a separate dissent, stating that the Board retained the option to deny institution, while noting “that one or more specified claims warrant reexamination, while others challenged in the petition do not.” She reasoned that this procedure might induce the petitioner to file a new IPR petition with only the claims that the Board identified—thus creating the functional equivalent of partial institution. The majority opinion pointedly responded that it had “no occasion today to consider whether this stratagem is consistent with the statute’s demands.”

III. Analysis

In *Oil States*, patent defendants dodged a bullet. Litigating patent validity in federal district court is expensive and unpredictable—particularly when the patent’s validity is determined based on fact-finding by a lay jury. IPR has become an efficient, speedy, and predictable method of weeding out anticipated or obvious patents. In affirming the constitutionality of IPR, the Court ensured that patent defendants could continue relying on IPR as an alternative to district court litigation.

While the Supreme Court did not abolish IPR, its decision in *SAS Institute* may significantly change IPR practice—although it remains to be seen how the Board will react to the decision. Before *SAS Institute*, the Board’s partial institution decisions discussed every claim on which an IPR was instituted—thus giving the parties substantial insight, at the outset, on the Board’s views. If the Board continues to issue institution decisions discussing each claim subject to review (now including all challenged claims), then there may be a significant increase to the workload of the Board. If, by contrast, the Board’s institution decisions continue to discuss only a subset of the challenged claims, IPR will become more unpredictable than it was before *SAS Institute*, because the Board will be obligated to decide to patentability of claims that it did not expressly discuss at the institution stage. It also remains to be seen whether the Board will adopt Justice Ginsburg’s suggestion to deny IPR petitions while suggesting to petitioners how they may be narrowed—and whether courts would uphold the legality of this procedure.

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