THE SUPREME COURT UPHOLDS AND CLARIFIES INTER PARTES REVIEW

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U.S. Intellectual Property Litigation / Post-Grant Patents Alert

By: Jason A. Engel

Tuesday, April 24, 2018, proved to be a banner day for *inter partes* review ("IPR") proceedings. The United States Supreme Court issued two separate opinions addressing the regime, the first upholding the constitutionality of IPR and the second clarifying the scope of the governing statute. While *Oil States Energy Services LLC v. Greene's Energy Group, LLC et al*. [1] is significant for its affirmation of the continued viability of IPR, a popular and efficient way to litigate patent validity, it is *SAS Institute v. Iancu* [2] that will be the most impactful decision moving forward. Here, we summarize that decision, highlight guidance by the U.S. Patent Office in view of that decision, and explain practical implications for parties and practitioners.

In *SAS Institute*, the Supreme Court, in a 5 to 4 decision, ruled that the Patent Trial and Appeal Board ("PTAB") must, in a Final Written Decision, decide the validity of every claim challenged by the petitioner in its petition. This represents a departure from established practice, in which the PTAB "curate[s] the claims at issue" [3] in an Institution Decision by declining to review certain claims.

The petitioner had filed an IPR petition challenging all 16 claims of a patent asserted against it in co-pending district court litigation, but the PTAB only instituted review of claims 1 and 3–10. [4] In the Final Written Decision, the PTAB found claims 1, 3, and 5–10 to be unpatentable and upheld claim 4. [5] The decision did not address the remaining claims challenged by the petitioner. [6] Petitioner sought review by the Federal Circuit, arguing that 35 U.S.C. § 318(a) required the PTAB to decide the patentability of every claim challenged in the petition, not just some. [7] The Federal Circuit rejected the argument, and the Supreme Court granted certiorari. [8]

The Court concluded "that the plain text of §318(a) supplies a ready answer." [9] Section 318(a) provides that "[i]f 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." [10] In reviewing this statutory language, the Court noted, first, that "[t]he word 'shall' generally imposes a nondiscretionary duty," [11] and second, that the word "any," "[w]hen used (as here) with a singular noun in affirmative contexts, . . . ordinarily refers to a member of a particular group or class without distinction or limitation and in this way implies every member of the class or group." [12] Accordingly, the plain language of § 318(a) *requires* that the PTAB decide "*every* claim the petitioner has challenged." [13]

In its reasoning the Court noted that partial institution power does not appear anywhere in § 318 or in the remainder of the statute. [14] Further, what language does appear instead "envisions that a petitioner will seek an inter partes review of a particular kind," meaning that Congress intended for the petitioner, not the PTAB, "to define the contours of the proceeding." [15] The structure of the IPR statute stands in stark contrast to the *ex parte* reexamination statute, which grants the Director the power to institute a reexamination "[o]n [its] own initiative, and at any time." [16] Had Congress intended for the Director to have the same authority over IPRs, it

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would not have chosen to "depart from the model of a closely related statute," *ex parte* reexamination, something "neither [the Supreme Court] nor the agency may disregard." [17]

Section 314 provides the PTAB with only a binary choice of whether to institute IPR, [18] and this choice must be "pursuant to the petition," meaning it must be "in accordance with or in conformance to the petition." [19] "Nothing suggests the Director enjoys a license to depart from the petition and institute a *different* inter partes review of his own design." [20]

Section 314 also provides that IPR may be instituted if the PTAB concludes that there is a reasonable likelihood that the petitioner will prevail on at least one claim challenged in the petition, which establishes a single claim threshold is all that must be met, not a claim-by-claim evaluation.[21] "Once that single claim threshold is satisfied, it doesn't matter whether the petitioner is likely to prevail on any *additional* claims; the Director need not even consider any other claim before instituting review." [22] In other words, § 314 provides that "a reasonable prospect of success on a single claim justifies review of all." [23] The wording of the *ex parte* reexamination statute, which shows that Congress knew how to adopt the Director's approach, further bolsters this conclusion. [24]

The Director argued that the discretion granted by § 314 allows the Director to decline to institute IPR even if he determines that there is a reasonable likelihood of success on at least one claim, but the Court held this discretion does not extend to "*what* claims that review will encompass." [25] Rather, the entire statutory scheme confirms that the petition "is supposed to guide the life of the litigation." [26] Whatever differences might exist in the phraseology of §§ 314 and 318, both sections are focused on the petitioner's challenges and cannot be read to grant the Director any power to decide which claims should be at issue. [27] And any policy argument that a partial institution power is the more expeditious approach is better directed at Congress than at the Supreme Court, whose job it is "to follow the policy Congress has prescribed." [28] In any event, the statute clearly indicates that Congress' policy is to grant the petitioner the power to determine which claims should be at issue in an IPR. [29]

Because the plain language of § 318(a) resolved the question before it, the U.S. Patent Office was not entitled to any deference under *Chevron U.S.A., Inc. v. Natural Resources Defense Counsel, Inc.* [30] [31] And, because no deference was necessary, the Court was not required to address the question of whether abandoning *Chevron* is appropriate. [32]

Finally, the Court rejected the Director's argument that *Cuozzo Speed Techs. v. Lee* [33] foreclosed judicial review of its partial institution practice because such a reading of *Cuozzo* would overextend its reach. [34] Though *Cuozzo* determined that judicial review of the Director's decision whether to institute IPR is barred, that does not extend to agency action "not in accordance with law or in excess of statutory jurisdiction, authority, or limitations," precisely the type of question before the Court here. [35]

Because the plain language of § 318(a) and the entire statutory scheme at large confirmed that the PTAB must issue a Final Written Decision as to all challenged claims, the Court reversed the Federal Circuit's decision to the contrary and remanded the case for further proceedings. [36]

Justice Breyer dissented and concluded that § 318(a) is ambiguous and, pursuant to *Chevron*, determined that the Director's interpretation of the statute is lawful. [37] In Justice Breyer's view, the majority had unsatisfactorily answered the question of whether the phrase "any patent claim challenged by the petitioner" referred to claims

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challenged “in the petitioner's original petition” or “in the inter partes review proceeding.” [38] The first reading would require that the PTAB consider and issue a final decision on all claims challenged by the petitioner in its petition, while the second reading would allow the PTAB to curtail the claims at issue in the IPR. [39] The dissenting justices did not agree that the statutory scheme squarely indicated which reading was the correct one. [40] Justice Breyer examined each IPR statute one by one and concluded, in the context of the whole IPR, that “it is more than reasonable to think that the phrase 'patent claim challenged by the petitioner' refers to challenges made in the proceeding, not challenges made in the petition but never made a part of the proceeding.” [41] Justice Breyer questioned why Congress would set up a scheme in which the PTAB would be required to proceed with IPR on claims it had previously determined were not likely to be invalid, inevitably resulting is wasted time and resources. [42] Because he was unable to resolve what he believed to be § 318(a)'s ambiguity, Justice Breyer resorted to *Chevron* and concluded that the Director's interpretation was lawful. [43]

On April 26, the PTAB issued a memorandum providing guidance on the impact SAS Institute will have on AIA trial proceedings. [44] The memorandum indicates that, for future proceedings, the PTAB will institute as to all claims or none, and that “if the PTAB institutes a trial, the PTAB will institute on all challenges raised in the petition.” [45] The PTAB later noted that while it did not interpret *SAS Institute* as requiring institution on all grounds, it had decided to enact policy consistent with this for the time being. [46] With regard to currently pending trials for which a panel had instituted trial as to fewer than all challenged claims, “the panel may issue an order supplementing the institution decision to institute on all challenges raised in the petition.” [47] The panel may, of its own accord, adjust the schedule of the proceeding, such as by providing additional time for briefing, discovery, etc. [48] If the panel does issue such a supplementation order, the parties shall meet and confer to determine whether additional briefing or any other adjustments to the trial schedule are required. [49] The PTAB expects that parties in these situations will work cooperatively. [50]

The Supreme Court's *SAS Institute* decision has several practical implications for parties and practitioners. First, it is unclear what information the PTAB will provide in institution decisions moving forward. Traditionally, the panel would explain which claims would advance to trial and why. But if institution is binary, such preliminary guidance may be less developed and provide less guidance on the asserted references and theories. The PTAB has noted that the same discretion will be afforded panels in drafting their institution decisions. [51]

As the PTAB is now required to consider all challenged claims all the way to the final decision, regardless of ground, the increased volume of issues before the PTAB and parties may slow the entire process or put strain on the PTAB's ability to dive as deeply into the analysis provided by the parties. The PTAB is, however, mindful of this and has stated that between their discretionary six-month extensions and hard work, they hope to have minimal disruptions to current schedules. [52]

Now that the PTAB will institute on all challenges raised in a petition, a petitioner will likely be estopped from asserting invalidity on all prior art submitted in an instituted petition. This will effectively remove the estoppel precedent of *Shaw*. [53] The obvious consequences for district court litigation will require that PTAB practitioners and district court litigators work in closer concert than ever before.

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[1] Case No. 16-712 (April 24, 2018).

[2] Case No. 16-969 (April 24, 2018).

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[3] *See* SAS Institute, Inc. v. Iancu, Case No. 16-969 (April 24, 2018), slip op. at 1.

[4] *Id.* at 3–4.

[5] *Id.* at 4.

[6] *Id.*

[7] *SAS Institute*, slip op. at 4 (emphasis original).

[8] *Id.*

[9] *Id.*

[10] 35 U.S.C. § 318(a).

[11] *SAS Institute*, slip op. at 4 (citing Lexecon Inc. v. Milberg Weiss Bersha Hynes & Lerach, 523 U.S. 26, 35 (1998)).

[12] *Id.* at 5 (citing Oxford English Dictionary (3d ed., Mar. 2016)) (internal quotations omitted).

[13] *Id.* (emphasis original).

[14] *Id.* at 5

[15] *Id.* at 6.

[16] *See* 35 U.S.C. § 303(a).

[17] *Id.* (citing University of Texas Sw. Med. Ctr. v. Nassar, 570 U.S. 338, 353–54 (2013)).

[18] *Id.* at 6–7 (citing 35 U.S.C. § 314(b)).

[19] *Id.* at 7 (citing the Oxford English Dictionary) (quotations omitted).

[20] *Id.* (emphasis original).

[21] *Id.*

[22] *Id.* (emphasis original).

[23] *Id.*

[24] *Id.* at 7–8 (citing 35 U.S.C. § 304).

[25] *Id.* at 8.

[26] *Id.*

[27] *Id.* at 9.

[28] *Id.* at 10.

[29] *Id.* at 10–11.

[30] 467 U.S. 837 (1984).

[31] *SAS Institute*, slip op. at 11–12.

[32] *Id.* at 11.

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[33] 136 S. Ct. 2131.

[34] *SAS Institute*, slip op. at 12–13.

[35] *Id.* at 13–14 (citing 5 U.S.C. §§ 706(2)(A), (C)).

[36] *Id.* at 14.

[37] *SAS Institute*, slip op. at 1 (Breyer J., dissenting).

[38] *Id.* at 4(Breyer J., dissenting).

[39] *Id.* at 4–5 (Breyer J., dissenting).

[40] *Id.* at 5 (Breyer J., dissenting).

[41] *Id.* at 5–6 (Breyer J., dissenting).

[42] *Id.* at 8 (Breyer J., dissenting).

[43] *Id.* at 8–10 (Breyer J., dissenting).

[44] *Guidance On The Impact Of SAS On AIA Trail Proceedings*, April 26, 2018.

[45] *Id.* at 1.

[46] David P. Ruschke, Chief Judge for the Patent Trial and Appeal Board, Chat with the Chief (April 30, 2018).

[47] *Guidance* at 1.

[48] *Id.*

[49] *Id.*

[50] *Id.*

[51] Intex Recreation Corp. v. Bestway Inflatables & Material Corp., IPR2016-00180, Paper 13 (June 6, 2016) (finding a reasonable likelihood that petitioner would prevail as to at least one challenged claim and instituting all challenges).

[52] David P. Ruschke, Chief Judge for the Patent Trial and Appeal Board, Chat with the Chief (April 30, 2018).

[53] Shaw Indus. Group, Inc. v. Automated Creel Systems, Inc., 817 F.3d 1293, 1299–1300 (Fed. Cir. 2016).

KEY CONTACTS



JASON A. ENGEL
LEAD PRACTICE AREA LEADER -
INTELLECTUAL PROPERTY

CHICAGO
+1.312.807.4236
JASON.ENGEL@KLGATES.COM

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