



Client Alert

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U.S. Supreme Court Declares Administrative Patent Challenges Constitutional (for now) and Clarifies Proper Scope of Such Proceedings

With two notable opinions issuing on the same day, the United States Supreme Court rejected specific challenges to the constitutionality of *Inter Partes* Review proceedings (“IPRs”) while at the same time correcting how those proceeding must proceed under statute. In a 7-2 opinion authored by Justice Clarence Thomas, the Court held in *Oil States Energy Servs., LLC v. Greene’s Energy Grp., LLC* (No. 16-712, 584 U.S. ____ (2018)) that IPRs violated neither Article III nor the Seventh Amendment of the U.S. Constitution. In a 5-4 opinion authored by Justice Neil Gorsuch, the Court held in *SAS Institute Inc. v. Iancu* (No. 16-969, 584 U.S. ____ (2018)) that when the United States Patent and Trademark Office (“USPTO”) institutes an IPR, it must by statute consider the patentability of all challenged claims and not merely those the USPTO deems worthy of consideration. The specifics of each case are addressed below in turn.

IPRs Do Not Violate Article III or the Seventh Amendment of the U.S. Constitution

The *Oil States* decision arose from a set of circumstances not uncommon in instances involving patent litigation. The parties are competing oilfield service companies, and Petitioner/Plaintiff Oil States Energy Services, LLC (“Oil States”) obtained a patent in 2001 relating to an apparatus and method for protecting well-head equipment used in hydraulic fracturing. In 2012, Oil States sued Respondent/Defendant Greene’s Energy Group, LLC (“Greene’s”) for infringement of that patent. Greene’s challenged the validity of the patent’s claims in district court, and it simultaneously petitioned the USPTO to consider its invalidity arguments as part of an IPR proceeding. Both the district court and USPTO proceedings progressed in parallel, but the USPTO issued its final written decision declaring the claims unpatentable well before the district court case concluded. Oil States appealed the USPTO’s decision, arguing that to remain constitutional, actions to revoke a patent must be tried in an Article III (federal district) court before a jury. The U.S. Court of Appeals rejected these arguments, summarily affirming the USPTO’s decision.

In likewise rejecting these arguments, the Supreme Court first traced the history and evolution of Congressionally created administrative processes that led to the creation of IPRs. It then outlined the procedural history of the particular dispute at issue, and it then turned to an explanation of how patents, their issuance, and their revocation, all implicate public rather than private rights. The distinction is critical, because the Supreme Court precedent establishes that the latter are rights that fall squarely within the exclusive province of the Judiciary to address, whereas the former may be subject to Congressional restrictions.

The Court acknowledged, addressed, but ultimately rejected Oil States' arguments that private rights were being unconstitutionally affected through IPR proceedings. The Court was also careful, however, to expressly limit its holding. Specifically, the Court "emphasize[d] the narrowness of [its] holding," stating that it did not address whether infringement actions could "be heard in a non-Article III forum," "whether [IPRs] would be constitutional 'without any sort of intervention by a court at any stage of the proceedings,'" whether IPRs constitutionally could be "retroactively appli[ed]," or whether IPRs violated the Due Process Clause or the Takings Clause of the Constitution.

For now, then, IPRs remain constitutional—at least with respect to adjudicating rights in light of Article III and the Seventh Amendment of the Constitution. The question whether IPRs are faithful to other provisions of the Constitution, however, has been left by the Court for another day.

The USPTO Must Consider the Patentability of all Challenged Claims When IPRs Are Instituted

In a less sensational but equally important decision, the Supreme Court clarified that the USPTO's current practice of selectively addressing the patentability of some, but not all, challenged claims in an IPR proceeding contravened plain and governing statutory language. The circumstances giving rise to the Court's decision in *SAS Institute Inc. v. Iancu* are somewhat innocuous. Petitioner SAS Institute Inc. ("SAS") petitioned the USPTO to institute IPR proceedings to examine the patentability of 16 claims contained in a software patent held by ComplementSoft. The USPTO determined that SAS was likely to succeed in invalidating at least one of the claims challenged, so IPR proceedings were instituted. Instead of instituting review of all 16 challenged claims, however, the USPTO instituted review of only 8 of those 16 claims. The final written decision declared 7 of the 8 reviewed claims invalid, upheld the validity of the 8th reviewed claim, and did not address the patentability of the remaining 8 unreviewed claims.

SAS sought review of this decision at the U.S. Court of Appeals for the Federal Circuit, arguing that the decision violated the plain language of 35 U.S.C. 318(a) requiring the review of every challenged claim. The Federal Circuit rejected the arguments, which in turn led to the Supreme Court's review of the issue.

The Court began and concluded with the plain language of 35 U.S.C. 318(a), which states that "[i]f an inter partes review is instituted and not dismissed under this chapter, the [USPTO] shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner" The Court fully addressed the arguments to the contrary, and in the end the plain statutory language carried the day.

While the nature of this decision is not terribly complex, the result may have far reaching consequences as noted by the dissent. For instance, administrative and judicial inefficiencies are not accounted for by the majority opinion, which will waste resources on administrative, and potentially judicial, review of potentially frivolous claims. Additionally, the result will necessarily impact the scope of how estoppel might apply in district court actions following IPR decisions. Perhaps most significantly, if the Court's decision is inconsistent with what Congress intended when it enacted the statute, or if the decision inadvertently obstructs the efficiency of IPR proceedings going forward, be advised that Congress may see fit to amend various statutory provisions to alter how IPRs are conducted in the future.

This client alert is not intended to provide legal advice, and no legal or business decision should be based on its content. Questions concerning issues addressed in this client alert should be directed to an attorney.