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PTAB Institution Decisions In The Wake Of SAS

By Stephen Schreiner and Maxine Graham (July 12, 2018, 1:14 PM EDT)

In *SAS v. Inancu*,^[1] writing for the 5-4 majority Justice Neil Gorsuch made three fundamental determinations regarding the statutory mandate for inter partes reviews under the America Invents Act:



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1. In determining whether to institute a proceeding the Patent Trial and Appeal Board has a “binary choice” — it can institute a proceeding in which all claims and all grounds^[2] challenged in the petition are reviewed, or it can decline to institute so that no claims are reviewed.^[3] The statutory framework does not permit the “partial institution” power the U.S. Patent and Trademark Office claimed under 37 C.F.R. § 42.108(a).^[4]

2. The PTAB need only determine that a single claim is likely to be found unpatentable on a single ground regardless of the number of claims challenged in the petition. It is entirely permissible under the statute for the institution decision to do no more than analyze a single claim in order to institute.^[5]

3. While the institution decision may only analyze a single claim, the final written decision must decide the patentability of all claims and all grounds identified in the original petition.^[6]

The practical implications for *SAS*  are profound. Take a typical petition requesting cancellation of 20 claims on five separate prior art grounds. There are actually 100 distinct challenges in the petition (each of 20 claims is challenged on five prior art grounds). In deciding whether to institute, the institution decision only has to find that a single challenge has merits, for example, that there is a reasonable likelihood that claim 10 will be found unpatentable under one ground. The merits of the other 99 challenges do not affect institution. The PTAB is not required to even address them at that time.

The impact of *SAS* at the end of the proceeding, the final written decision, is profound but in the opposite way. Even if only a single challenge in the petition was deemed to have merit, the final written decision must address all 100 challenges. It must decide the patentability of each of the 20 claims across each of the five grounds.

Questions Following SAS

The *SAS* decision presented fundamental questions on how the PTAB would decide IPR petitions going forward, including:

1. Would the PTAB still institute robust institution decisions analyzing all challenged claims against all grounds presented? And would the PTAB’s institution decisions continue to

identify those claims/grounds it determined not to be meritorious (i.e., identifying which claims were not likely unpatentable)?

2. Would the PTAB scale back its institution decisions into minimalist “go/no-go” decisions addressing only a few claims and grounds or even just a single claim/ground? If it streamlined institution would the PTAB also dispense with identifying nonmeritorious challenges?

3. Would PTAB practice move in the direction of issuing fewer decisions instituting review? Will the institution rate decline?

On the last point, the PTAB could issue institution decisions delineating which challenges have merit and which do not and then exercise its discretion not to institute. This would reduce the number and complexity of IPR proceedings that the PTAB would have to adjudicate in final written decisions. It could also prompt petitioners to follow the road map of an institution denial and refile a second petition limited to those claims and grounds the PTAB deemed to have merit.[7]

Considerations for Post-SAS Practice

We believe that the public interest, integrity of the patent system and the efficient administration of IPRs are served by the PTAB continuing to institute comprehensive and detailed institution decisions addressing all claims and grounds from the petition. Robust institution decisions give the parties notice and guidance as to which challenges should be the focus of activities taking place during the one year proceeding that begins with institution. These activities include the patent owner’s response due three months after institution, discovery by both parties, the petitioner’s reply, the patent owner’s motion to amend, and an oral hearing. These post-institution activities often involve multiple experts and thousands of pages of briefing, sworn testimony and prior art.

On the other hand, efficacy, fairness and efficiency of the IPR regime will suffer if the PTAB transitions to a practice of abbreviated institution decisions. The petitioner and the patent holder will often have insufficient notice as to which challenged claims are likely unpatentable and which are likely patentable. The parties may have a diminished understanding as to which asserted prior art grounds are strong and which are not. They will not know how to prioritize the arguments in their papers, how to focus their discovery, and what to present during oral argument.

The competence of PTAB panels could also be undermined by abbreviated institution decisions. For example, consider a panel deciding an institution decision by analyzing only a single claim against one ground from a petition challenging multiple claims on multiple grounds. That analysis is sufficient for deciding institution. However, when deciding the fate of all challenged claims of the patent, that panel will be far less knowledgeable than one which has already documented preliminary determinations on the full range of issues at the time of institution.

A practice of highly abbreviated institution decisions could also fall short of the protections provided under the Constitution (e.g., due process) and the Administrative Procedure Act. SAS decided as a matter of statutory construction that § 314 of the America Invents Act requires no more than one claim be analyzed in order to institute. SAS did not address the constitutional limits as to the brevity of institution decisions. SAS also did not address how brief institution decisions could be and still meet protections under the APA, which inarguably applies to the AIA and § 314 in particular.[8]

A minimalist approach to institution decisions would also create challenges regarding the existing practice of pre-institution preliminary patent owner responses followed by post-institution patent owner responses if review is instituted. Under pre-SAS practice, an

institution decision could winnow the number of claims and grounds at issue. The patent owner response would then focus the arguments and evidence on just those claims and grounds. With the all-or-nothing decision required by SAS, the patent owner response will be confronting the very same claims/grounds as the preliminary patent owner response. The role and content of the patent owner response vis-à-vis the PPOR may become a difficult question if institution decisions do not provide detailed guidance.

Claim construction is another issue weighing in favor of detailed institution decisions. Preliminary claim constructions are often established during institution. Even when a claim construction is not adopted, pre-SAS practice has been for the PTAB to signal its posture by addressing claim construction issues raised in the petition and preliminary patent owner response. For example, it is highly beneficial to a party staking out a specific claim construction position to learn from institution that plain and ordinary meaning will likely be applied. Claim construction considerations at institution will become even more important with the PTO's recent announcement that the PTAB post-grant proceedings will move to a district court Phillips claim construction standard in place of broadest reasonable construction. Claim construction will have significance beyond the IPR because it may have a binding effect in district court proceedings.[9]

Preliminary Assessment Based on Post-SAS Decisions to Date

We studied more than 50 IPR institution decisions issued between May 1 and July 3. The results to date are encouraging.

The institution grant rate was 56 percent, which is somewhat down from the grant rate of about 65 percent or higher[10] over the last several years. This suggests that the PTO may be applying a more exacting standard for institution and/or more frequently exercising its discretion not to institute.

The PTAB's transitional practice for SAS (most evident during first two weeks of May 2018) was to issue "Conduct of Proceeding Orders" that modified pending IPR proceedings to add in any claims or grounds that were not included in the institution decision. Depending on the posture of a proceeding the parties were given leave to request supplemental briefing. For example, the patent owner may be given permission to supplement the patent owner response to address claims and grounds not part of the original institution.

In many cases PTAB panels modified the institution to include omitted claims/grounds, but encouraged the parties to stipulate to remove those claims/grounds from the proceeding or not to pursue them. For example, in *Unified Patents Inc. v. Intellectual Ventures I LLC*, [11] the panel entered the parties' stipulation not to pursue the added claims/grounds by agreeing not to seek discovery on them and not to brief them. In *Ooma Inc. v. Deep Green Wireless LLC*, [12] the PTAB granted a joint motion to exclude two grounds.

Of course, some parties rejected the invitation to dismiss new claims or grounds. For example, some patent owners would not agree to dismiss previously rejected grounds on the theory that the board's final decision would also find the grounds without merit and thus create binding estoppel in favor of the patent owner under 35 U.S.C. § 315(e).

Generally, the institution decisions continue to be comprehensive and detailed. Their length was in range of 10 to 50 pages, averaging 15 to 20 pages. When the decision was to institute, the norm was that most challenged claims and grounds were addressed. When the decision was not to institute, the norm was that at least the independent claims were analyzed against all grounds. It makes sense that the independent claims may be the only claims analyzed for non-institution because if they are likely patentable it follows that their narrowing dependent claims will be likely patentable.

Even when a proceeding was instituted, it was encouraging to find that many decisions

continue to specifically identify claims and grounds that are not likely to succeed (i.e., that are nonmeritorious). For example, a July 2 institution decision in Comcast Cable Communications LLC v. Promptu Systems Corporation[13] instituted on 15 claims challenged based on 14 grounds set forth in the petition, but the decision specifically noted that the challenges based on multiple dependent claims and seven of the grounds lacked merit. A decision on May 9 in ZTE (USA) Inc. v. Fundamental Innovation Systems International LLC[14] instituted on the 18 claims and two grounds identified in the petition, but determined that multiple dependent claims were likely patentable based on one ground.

One major area of concern is that 50 percent of the decisions instituting review failed to analyze all claims and all grounds. In some cases, the gap between the institution analysis and the challenges presented in the petition was significant. For example, a July 2 decision to institute in Huawei Device Co. Ltd. v. Maxell Ltd.[15] instituted on seven claims and four grounds, but only analyzed two claims and one ground. A June 29 decision in Netlist Inc. v. SK Hynix Inc.[16] instituted on 37 claims and nine grounds, but only considered two claims and one ground. A June 7 decision in Seoul Semiconductor Co. Ltd. v. Document Security Systems Inc.[17] instituted on nine claims and four grounds, but only provided analysis of one claim and two grounds. The patent owner, Document Security Systems, has filed a request for rehearing challenging the partial analysis as violating PTAB regulations which allegedly require the institution decision to address all claims and all grounds. The argument is that even though SAS sets a lower bar that only a single claim needs to be analyzed to institute a proceeding, the PTO's current regulations require much more.

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[1] SAS Institute, Inc. v. Iancu, 138 S.Ct. 1348 (2018).

[2] Strictly speaking, SAS did not decide the related question of whether the PTAB is required to address all grounds (prior art) identified in the petition. However, the reasoning of the majority leaves little doubt that the PTAB must address all prior art grounds as well as all challenged claims upon institution. The Federal Circuit issued an opinion with that holding on June 7, 2018, in PGS Geophysical AS v. Inancu 891 F.3d 1354, 1360 (2018) ("We read those and other similar portions of the SAS opinion as interpreting the statute to require a simple yes-or-no institution choice respecting a petition, embracing all challenges included in the petition . . .").

[3] SAS, 138 S.Ct. at 1355-56.

[4] 37 C.F.R. § 42.108(a) is no longer valid following the SAS decision. It states: "When instituting inter partes review, the Board may authorize the review to proceed on all or some of the challenged claims and on all or some of the grounds of unpatentability asserted for each claim." [emph. added]. The SAS holding expressly rejects that partial institution power: "There is no room in this scheme for a wholly unmentioned 'partial institution' power that lets the [PTAB] select only some challenged claims for decision." SAS at 1358.

[5] SAS, 138 S.Ct. at 1356 [emph. added]: “Section 314(a) does not require the Director to evaluate every claim individually. Instead, it simply requires him to decide whether the petitioner is likely to succeed on ‘at least 1’ claim. 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. Rather than contemplate claim-by-claim institution, then, the language anticipates a regime where a reasonable prospect of success on a single claim justifies review of all.”

[6] Id. at 1353 (“[T]he Patent Office must ‘issue a final written decision with respect to the patentability of any claim challenged . . . The agency cannot curate the claims at issue but must decide them all.”); 1354 (“[T]he Board’s final written decision . . . must address every claim the petitioner has challenged.”) [original emph.].

[7] Indeed, in her dissent in SAS Judge Ginsberg pointed out that the PTAB could easily circumvent SAS to continue its practice of partial institution by issuing institution decisions identifying which challenges had merit and which did not, and then exercising its discretion to deny review. The petitioner would thus be prompted to file a new petition limited to the meritorious challenges, which the PTAB would normally grant so as to effectuate the streamlined IPR proceeding. See SAS at 1360.

[8] The SAS decision is premised on the power of the courts to review § 314 under the APA. SAS at 1359 (citing *Cuozzo Speed Technologies, LLC v. Lee*, 136 S.Ct. 2131, 2140 (2016); 5 U.S.C. § § 706(2)(A), (C)).

[9] See, e.g., *B&B Hardware, Inc. v. Hargis Indus., Inc.* 135 S.Ct. 1293 (2015) (collateral estoppel in district court from agency determination).

[10] See “PTO Trial Statistics IPR, PGR, CBM Patent Trial and Appeal Board October 2017,” at www.uspto.gov/sites/default/files/documents/trial_statistics_october_2017.pdf (67 percent for FY2016, 63 percent for FY2017).

[11] *Unified Patents Inc. v. Intellectual Ventures I LLC* (IPR2016-01643), Order – Conduct of Proceedings, 6/22/2018.

[12] *Ooma Inc. v. Deep Green Wireless, LLC* (IPR2017-01541), Order Granting Joint Motion to Limit the Petition, 5/29/2018.

[13] *Comcast Cable Communications, LLC v. Promptu Systems Corporation*, IPR2018-0034.

[14] *ZTE (USA) Inc. v. Fundamental Innovation Systems International LLC*, IPR2018-00111.

[15] *Huawei Device Co. Ltd. v. Maxell Ltd.*, IPR2018-00251.

[16] *Netlist Inc. v. SK Hynix Inc.*, IPR2018-00362.

[17] *Seoul Semiconductor Co. Ltd. v. Document Security Systems Inc.*, IPR2018-00265.