

Is the Federal Circuit’s Adoption of a Partial-Final-Written-Decision Regime Consistent with the Statutory Text and Intent of the U.S.C. Sections 314 and 318?

CASE AT A GLANCE

The Court will consider whether the text of 35 U.S.C. § 318(a), which requires a final written decision with respect to “any patent claim challenged by the petitioner,” is materially different from the language of 35 U.S.C. § 314(a), which allows institution of an inter partes review where there is a reasonable likelihood that the petitioner would prevail with respect to “at least 1 of the claims challenged in the petition.” Petitioner SAS Institute, Inc. (SAS) filed a petition with the U.S. Patent and Trademark Office to institute an inter partes review of claims 1–16 of Patent 7,110,936 (the “936 patent”), owned by ComplementSoft, LLC (ComplementSoft), pursuant to 35 U.S.C. § 311 *et seq.* Upon appeal, and with respect to the question of whether the “final written decision” issued by the Patent Trial and Appeal Board had to address the patentability of all of the claims challenged by SAS under Section 318(a), the panel of the U.S. Court of Appeals for the Federal Circuit, in a divided 2–1 opinion, held that the Patent Trial and Appeal Board was authorized to adopt a partial-final-written-decision regime under its rulemaking authority. The panel majority viewed SAS’s argument that the Patent Trial and Appeal Board must address all claims from the inter partes review petition in the final written decision as foreclosed by the Federal Circuit’s previously issued, February 10, 2016, 2–1 panel decision in *Synopsis, Inc. v. Mentor Graphics Corp.*, 814 F.3d 1309 (Fed. Cir. 2016). The Supreme Court will now consider whether the Federal Circuit’s adoption of a partial-final-written-decision regime is proper under the statute.

SAS Institute, Inc. v. Joseph Matal, Interim Director, U.S. Patent and Trademark Office, and ComplementSoft, LLC
Docket No. 16-969

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From: The Federal Circuit

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ISSUE

Does 35 U.S.C. § 318(a), which provides that the Patent Trial and Appeal Board in an inter partes review “shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner,” require the Board to issue a final written decision as to every claim challenged by the petitioner, or does it allow the Board to issue a final written decision with respect to the patentability of only some of the patent claims challenged by the petitioner?

INTRODUCTION

The Leahy-Smith America Invents Act, 35 U.S.C. § 100 *et seq.* (the Act), creates a process called “inter partes review.” That review process allows a third party to ask the U.S. Patent and Trademark Office (USPTO) to reexamine the claims in an already-issued patent and to cancel any claim that the agency finds to be unpatentable in light of prior art. A petitioner begins the inter partes review process by filing a petition challenging the patentability of one or more claims in a given patent, “identif[ying], in writing and with particularity, each claim challenged, the grounds on which the

challenge to each claim is based, and the evidence that supports the grounds for the challenge to each claim.” 35 U.S.C. § 312(a)(3). The owner of the challenged patent may file a “preliminary response” to the petition, setting forth “reasons why no inter partes review should be instituted.” 35 U.S.C. § 313.

35 U.S.C. § 314 sets forth the threshold for instituting inter partes review: The Director may institute inter partes review if “the Director determines that the information presented in the petition filed under Section 311 and any response filed under Section 313 shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least one of the claims challenged in the petition.” *Id.* Section 314(a). Further, Section 318(a) states that “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).” A petitioner is further estopped, in an infringement action, from relitigating grounds of patent invalidity that were or could have been raised in the inter partes review once a final written decision under Section 318(a) has been issued.

On February 10, 2016, the Federal Circuit issued a split 2–1 panel decision, with Judge Pauline Newman dissenting, in *Synopsys, Inc. v. Mentor Graphics Corp.*, 814 F.3d 1309 (Fed. Cir. 2016) in which the panel majority held that the text of Section 318(a), which requires a final written decision with respect to any patent claim challenged by the petitioner, was materially different from the language of Section 314(a), which allows institution of an inter partes review where there is a reasonable likelihood that the petitioner would prevail with respect to “at least 1 of the claims challenged in the petition.” *Id.* at 1315. Accordingly, the panel majority concluded, the claims that the Patent Trial and Appeal Board must address in the final decision are different from the claims raised in the petition and concluded that “[a]lthough we find that the language is clear, if there were any doubt,” the Patent Trial and Appeal Board was authorized to adopt a partial-final-written-decision regime under its rulemaking authority. *Id.* at 1315–1316.

This current case requires the Court to assess whether the Federal Circuit’s adoption of a partial-final-written-decision regime in *Synopsys*, whose holding was applied in this case, is consistent with the statutory text and intent of Sections 314 and 318.

FACTS

On September 14, 2012, ComplementSoft sued SAS for patent infringement in the Northern District of Illinois. ComplementSoft’s complaint alleged that SAS had infringed one or more claims of ComplementSoft’s U.S. Patent No. 7,110,936, including but not limited to at least claims 1, 2, 3, 4, 8, and 10. On March 29, 2013, SAS petitioned for inter partes review of the ’936 Patent, challenging the patentability of all 16 of the patent’s claims, either as anticipated (35 U.S.C. § 102) or obvious (*id.* § 103) in view of prior art. On August 12, 2013, the Patent Trial and Appeal Board, acting as the Director’s delegate for making institution decisions pursuant to 37 C.F.R. § 42.4(a), and believing that it had the authority to institute inter partes review as to fewer than all 16 of the claims challenged in SAS’s petition, instituted inter partes review only as to claims 1 and 3–10.

After receiving evidence and argument, the Patent Trial and Appeal Board issued its final written decision under Section 318(a) on August 6, 2014, which addressed only claims 1 and 3–10, and not claims 2 and 11–16 of the ’936 Patent. SAS requested rehearing before the Patent Trial and Appeal Board, challenging its procedural failure under Section 318(a) to issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner. The Board denied rehearing on November 10, 2014.

SAS and ComplementSoft each timely appealed to the Court of Appeals for the Federal Circuit. SAS challenged the Board’s refusal to issue a final written decision with respect to the patentability of all 16 patent claims it had challenged, and ComplementSoft appealed the determination of unpatentability with respect to claims 1, 3, and 5–10 of the ’936 Patent. The Director of the Patent and Trademark Office intervened to defend the Patent Trial and Appeal Board’s decision to issue a final decision as to only some of the claims challenged by SAS.

On June 10, 2016, the Federal Circuit panel in this case issued its decision, affirming the Patent Trial and Appeal Board’s decision. With regard to the question of whether the final written decision

had to address the patentability of all 16 claims challenged by SAS under Section 318(a), the Federal Circuit panel divided 2–1. The Federal Circuit panel majority viewed “SAS’s argument that the Board must address all claims from the IPR petition in the final written decision [as] foreclosed by *Synopsys*,” in which the Federal Circuit panel majority had previously concluded in a divided 2–1 holding, with Judge Newman dissenting, that the Patent Trial and Appeal Board was authorized to adopt a partial-final-written-decision regime under its rulemaking authority.

In this case, Judge Newman dissented and, reiterating many of the objections first outlined in her *Synopsys* dissent, stated that:

The [US]PTO’s position that it need not review some of the claims challenged in a petition for review via a post-grant proceeding is inconsistent with the Act. The [US]PTO is authorized to refuse to institute review entirely—but a partial review cannot be inferred from the statute or accommodated to its purpose.

The statutory provisions and the legislative purpose of substituting an agency tribunal for district court proceedings on aspects of patent validity are defeated by the [US]PTO’s position that it can leave some challenged claims untouched. The America Invents Act presents a new system of reviewing issued patents, providing for stays of district court proceedings, and estoppels in all tribunals, based on the [US]PTO decision. Final determination of the validity of a challenged patent is not achieved when the [US]PTO selects, as its sole and unreviewable choice, which claims it will review and which it will not touch.

SAS petitioned for rehearing *en banc* on the issue of whether the Board was obligated to issue a final written decision on all 16 of the challenged claims. On November 7, 2016, over Judge Newman’s dissent, the Federal Circuit denied SAS’s petition.

SAS petitioned to the Supreme Court for a writ of *certiorari*. On May 22, 2017, the Court granted the petition.

CASE ANALYSIS

In this case, the Court must determine whether Section 318(a) requires the Patent Trial and Appeal Board (the Board) in an inter partes review to issue a final written decision with respect to the patentability of every patent claim challenged by the petitioner, or whether the Board be allowed to issue a final written decision with respect to the patentability of only some of the patent claims challenged by the petitioner.

On the issue of whether Section 318(a) requires the Board in an inter partes review to issue a final written decision with respect to the patentability of every challenged patent claim, the petitioner and respondents frame the issue before the Court in different ways. Petitioner frames the issue as a matter of strict statutory interpretation. Because the plain language of Section 318(a) states that “...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),” petitioner argues that the Board is obligated, “by a plainly worded statutory mandate, to decide all 16 of those challenged

patent claims,” and that “the Federal Circuit’s contrary decision should not be allowed to stand.” Contrarily, respondents suggest that the question be framed as whether the Board should be required to spend resources conducting an inter partes review on patent claims in which the petitioner failed to show even a reasonable likelihood of success in its petition. Respondents suggest that the plain text and the overall statutory context demonstrate that the Board may elect to review only those claims where there is a reasonable chance that the petitioner will succeed, and the Board need not otherwise deny a petition outright or use its limited resources litigating unreasonable arguments by petitioners. Further, respondents say, the Board’s interpretation of the statute allowing the adoption of a partial-final-written-decision regime should be given deference under *Chevron*. (In *Chevron U.S.A., Inc. v. Nat. Res. Def. Council, Inc.*, 467 U.S. 837 (1984), the Court held that courts should defer to agency interpretations of statutes that the agencies enforce, unless such interpretations are unreasonable.)

Petitioner argues that the Federal Circuit failed to analyze the plain language of Section 318(a)’s mandate, to include the imperative use of the terms “shall” and “any,” that would require the issuance of a final written decision with respect to the patentability of every challenged patent claim and, instead, improperly looked to Section 314(a), which sets forth the “threshold” for the Director’s discretionary decision whether or not to institute inter partes review, to conclude that the claims that the Board must address in the final decision are different from the claims raised in the petition under Section 314(a).

Petitioner argues that Section 314(a), which provides that the Director of the USPTO “may not authorize an inter partes review to be instituted unless the Director determines that [the information contained in the parties’ institution-related filings] shows that there is a reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged in the petition, does not explicitly authorize the Director to ‘institut[e]’ ‘an inter partes review’ that is limited to fewer patent claims than are challenged in the petition, nor does it say that such a partial institution transforms the un-instituted patent claims into claims that are no longer ‘challenged by the petitioner,’ in the words of § 318(a).” Butressing this argument, petitioner notes that the relevant Act provisions, to include Sections 312(a)(3), 314(a), 315(e), 316(a), and 318(a), “assume that inter partes review will proceed, and take the place of litigation, on all claims challenged by a petitioner in a petition” and that no other sections of the Act “suggests that inter partes review will proceed on only a subset of the challenged claims.”

Petitioner suggests that there is no statutory indication that the Board has the discretion to address fewer claims than those challenged by the petitioner. Indeed, petitioner argues that the language of Section 318(a) is mandatory (“shall”), complete (“any claim challenged”), and strictly additive (“and any new claim added under section 316(d)”). Thus, petitioner suggests that because “the combination of the ‘shall’ mandate with the broad and inclusive ‘any claim’ language compels the conclusion that the final written decision must reach all of the claims challenged by the petitioner; the USPTO cannot reduce Congress’s mandate by administrative fiat.”

Petitioner refers to Judge Newman’s trio of dissenting opinions, in *Synopsis*, in the panel decision in this case, and from the denial of rehearing *en banc* in this case, in arguing that the panel’s interpretation of Section 318(a) will do harm to the efficient operation of the post-patent-issuance challenge regime that was established by the Act. Petitioner suggests that the totality of the Act demonstrates that Congress designed a regime of post-patenting review that would resolve challenges to all claims that the petitioner has challenged upon initiation of an inter partes review, and that the Board’s use of a partial-decision regime eliminates the ability to have patentability determinations as to a particular patent adjudicated efficiently in a single proceeding, either before the Board or in court.

With respect to *Chevron* deference, petitioner argues that the clarity of the language of Section 318(a) compels the Board to issue a final and appealable written decision as to all challenged claims, and that the statute fails to provide any indication that Congress intended to delegate to the USPTO the power to narrow its otherwise broad Section 318(a) mandate.

As amicus in support of petitioner, the Intellectual Property Owners Association (the Association) states that Congress intended inter partes review proceedings to act as “a true alternative” to district court litigation for the determination of patent validity and argues that the Board’s adoption of a partial-decision regime frustrates congressional purpose. The Association adopts the “plain language” argument framed by the petitioner and suggests that the use of a partial-decision regime undermines the legislative intent in enacting the inter partes review provisions of the Act and, in particular, the estoppel provision that was intended to eliminate abusive litigation tactics that are present under a partial-decision regime.

The Association argues that the Board’s failure to address challenged but noninstituted claims is incorrect in view of the “clear and unambiguous statutory language” of Section 318(a). Further, the Association suggests that the Board’s interpretation of Section 318(a) is undeserving of *Chevron* deference directly, and plainly requires the final written decision to address all claims challenged by the petitioner, and that the USPTO cannot “rewrite clear statutory terms to suit its own sense of how the statute should operate.” The Association cited the Congressional Record in arguing that inter partes review under the Act was envisioned to “completely substitute for at least the patents-and-printed-publications portion” of infringement litigation and that the “creation of a complete substitute for district court litigation was intended to benefit both the petitioner and the patent owner.” The Association further notes that the Board’s adoption of the partial-decision regime frustrates Congress, whose intent under Section 315(e)(2) of the Act is “to prevent petitioners from raising in a subsequent challenge the same patent issues that were raised or reasonably could have been raised in a prior challenge,” as courts have not applied the estoppel provision of Section 315(e) to claims that are not addressed in an issued final written decision. Thus, the Association suggests that the Board should be required to conform to the statutory language of Section 318(a) and underlying congressional intent and address all challenged claims in a final written decision.

The Federal respondent frames the relevant issues in two parts: whether “the USPTO may agree to institute inter partes review regarding the patentability of a subset of the patent claims of which review is requested,” and whether, “if the USPTO institutes review of some but not all of the claims that are challenged in a petition for inter partes review, the Board must address the unreviewed claims in its final written decision.” Federal respondent argues that the mechanisms created by inter partes review under the Act were designed to create an “efficient system for challenging patents that should not have issued.” Federal respondent further suggests that the Act provides the USPTO broad discretion in determining “whether to institute inter partes review, and it makes the agency’s decisions whether to institute review ‘final and nonappealable.’”

Federal respondent notes that the provisions of the Act that authorize the USPTO to institute inter partes review place no restriction on the scope of that review once the USPTO determines that the statutory prerequisites are satisfied and that the Act provisions that govern institution of inter partes review, such as Section 312, contemplate that the USPTO may conduct a claim-by-claim analysis. Federal respondent turns to Section 314(a), and the particular use of the phrase “at least 1 of the claims challenged in the petition,” to argue that the USPTO can apply the statute’s reasonable-likelihood test on a claim-by-claim basis.

Federal respondent notes that the Act allows the USPTO to institute review “where the grounds for attacking the decision to institute inter partes review consist of questions that are closely tied to the application and interpretation of statutes related to the [USPTO’s] decision to initiate inter partes review.” Federal respondent argues that the same code section imposes “no mandate to institute review” and that no other provision of the Act “requires the USPTO to institute review of all challenged claims if the agency agrees to review any of them.”

With respect to Section 318(a), Federal respondent suggests that this section be read in its statutory context and that the plain language of Section 318(a) “does not refer to every claim of which review was originally requested, but only to those claims that were challenged within the instituted review proceeding, *i.e.*, those claims the USPTO agreed to review.” Federal respondent argues that the Board’s partial-decision regime allows the USPTO to operate efficiently while improving patent quality.

Federal respondent further argues that the Act is properly interpreted to permit the USPTO to institute inter partes review with respect to a subset of the claims of which review is sought and suggests that the USPTO’s interpretation, adopted after notice-and-comment rulemaking, is at a minimum reasonable and is therefore entitled to *Chevron* deference.

Respondent echoes the efficiency arguments presented by the Federal respondent and suggests that neither the plain text of Section 318(a), in isolation or in context, nor the purposes of the Act are served by forcing patent owners and the Board to expend resources litigating invalidation arguments to a final written decision where the petitioner failed to show a reasonable chance of success at the institution stage. Thus, respondent suggests that the Board’s adoption of the partial-decision regime is a reasonable

interpretation of the Act’s provisions and that the USPTO “need not otherwise deny a petition outright or use its limited resources litigating unreasonable arguments by petitioners.”

Respondent argues that, because the Act provides for a progression of steps from institution of the inter partes review through the issuance of the final written opinion, the differences in language at the final written opinion step expressed in the text of Section 318(a) should continue “the narrowing progression from ‘may request,’ to challenged in ‘the petition,’ to remaining ‘challenged’ after institution; should be understood to apply to claims challenged in the specific stage in which the term is used; and should be interpreted to exclude any claims for which the petitioner had failed to make a proper challenge at the institution stage.”

Respondent further notes that the estoppel provisions of the Act, Section 315, contemplate that not all challenged claims will be the subject of a final written decision. This section states that a petitioner in “an inter partes review of a claim in a patent under this chapter that results in a final written decision” is estopped from asserting “that the claim is invalid on any ground that the petitioner raised or reasonably could have raised during that inter partes review.” Thus, respondent suggests that “if the Board does not institute review as to a particular claim, there has been no adjudication and therefore no repeated adjudication of the same issue later in district court.”

As amicus in support of respondents, the Houston Intellectual Property Law Association (the HIPLA) argues that Congress allowed the USPTO broad discretion in deciding whether to review patents challenged by petitioners seeking review under Section 314(d). HIPLA suggests that inter partes review was “never intended to wholly prevent validity challenges in parallel district court litigation” in dismissing potential estoppel concerns presented by the Board’s use of a partial-decision regime. Rather, HIPLA suggests that the Board’s partial-decision regime provides an expedited pathway for patent owners to enforce their rights.

HIPLA’s argument looks to the language of Section 318(a), which provides that “[i]f an inter partes review is instituted and not dismissed,” then the only claims that remain “challenged” at the stage of the inter partes review process governed by Section 318(a) are those for which the Board has instituted review under Section 314(a). Thus, HIPLA notes that “at least some of the claims for which the Board declines to institute review are those on which the petitioner has failed to show even a reasonable likelihood that it would prevail in establishing that the claims are unpatentable” and that such determinations are “final and nonappealable” under Section 314(d). HIPLA suggests that Section 318(a) be properly read to exclude claims to which the Board has properly declined to institute review as having been “challenged by the petitioner.”

HIPLA also suggests that the Board’s partial-decision regime allows the USPTO to operate efficiently while improving patent quality. HIPLA notes that inter partes review does not replace the invalidity portions of a district court litigation. Rather, HIPLA argues that, under Section 311(b), inter partes review is limited to invalidity challenges that could be raised under Sections 102 or 103 and only on the basis of prior art consisting of patents or

printed publications. In contrast, HIPLA suggests that a variety of other invalidity grounds, such as invalidity based on the on-sale bar, for claiming patent-ineligible subject matter, or on grounds of indefiniteness, are available to the petitioner in the district court litigation.

Petitioner replies by arguing that the Federal Circuit failed to analyze the plain language of Section 318(a)'s mandate. In a position echoed by respondents, petitioner argues that the Federal Circuit erred in looking to Section 314(a) of the Act, which sets forth the "threshold" for the Director's discretionary decision whether or not to institute inter partes review. The reference there to "the claims challenged in the petition," when compared to Section 318(a)'s reference to "any patent claim challenged by the petitioner," yields the conclusion, according to respondents, that "the text makes clear that the claims that the Board must address in the final decision are different than the claims raised in the petition." Petitioner argues that there is no statutory provision under the Act that allows the Board to have the discretion to address fewer claims than those challenged by the petitioner in the final written decision.

Petitioner reiterated the argument that the Federal Circuit failed to address the plain language of Section 318(a), "which is mandatory ('shall'), complete ('any claim challenged'), and strictly additive ('any new claim added under section 316(d)')." Petitioner argues that the combination of the "shall" mandate with the broad and inclusive "any claim" language compels the conclusion that a proper interpretation of Section 318(a) requires that "the final written decision must reach all of the claims challenged by the petitioner," and that the USPTO "cannot reduce Congress's mandate by administrative fiat."

Petitioner suggests that the Board's adoption of the partial-decision regime erroneously eliminates the Act's intended use as an efficient substitute for district-court invalidity litigation. Petitioner further argues that the Board's use of the partial-decision regime undermines the Act's congressional intent, "which was designed to create an effective, efficient, and fair system for determining patentability."

SIGNIFICANCE

Section 318(a) provides that the Patent Trial and Appeal Board in an inter partes review "shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner." This case involves whether Section 318(a) requires the Board to issue a final written decision as to every claim challenged by the petitioner, or whether it allows the Board to issue a final written decision with respect to the patentability of only some of the patent claims challenged by the petitioner. A decision reversing the Board's

adoption of the partial-decision regime and requiring an issuance of a final written decision that addresses each claim "challenged" by the petitioner would provide clarity to the scope of all of the claims that were initially challenged by the petitioner and would allow for appeal of the entirety of the "challenged" claims by the Federal Circuit, which has a reputation of being hostile to patent owners.

However, the Court's affirmation of the Board's use of a partial-decision regime could serve to maximize the USPTO's efficiencies and allocations of scarce time and money resources, as well as protect the patent owner from having to defend all challenged claims when the inter partes review petitioner has failed to meet its burden in the first place.

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