



# The NYIPLA Report: Recent Developments in Patent Law at the U.S. Supreme Court: OIL STATES, SAS INSTITUTE, and WESTERNGECO

Author(s): Charles R. Macedo, David P. Goldberg, Christopher Lisiewski and Chandler Sturm\*

On April 24, 2018, the U.S. Supreme Court (“Supreme Court”) issued its much-anticipated decisions in *Oil States Energy Services, LLC v. Greene’s Energy Group, LLC* and *SAS Institute Inc. v. Iancu*. The first decision reaffirms the constitutionality of *inter partes* review proceedings and the second rejects current PTAB practice to grant the partial institution of *inter partes* reviews as *ultra vires*. Accordingly, these two decisions mean that the U.S. Patent and Trademark Office’s *inter partes* review proceedings for the reconsideration of a prior grant of a patent will continue to be available, but only with appropriate procedural adjustments.

Further, on June 22, 2018, the Supreme Court in *WesternGeco LLC v. ION Geophysical Corp.* held that the damages provision of 35 U.S.C. § 284 permits recovery of foreign lost profits when infringement is found under 35 U.S.C. § 271(f)(2), expanding the scope of damages under the Patent Act.

Together, this past term at the Supreme Court brought additional insight into the role of Patent Law within our administrative state, and revitalized some theories related to damages law.

## ***I. Oil States Energy Services, LLC v. Greene’s Energy Group, LLC***

In *Oil States Energy Services, LLC v. Greene’s Energy Group, LLC*, the Supreme Court affirmed the U.S. Court of Appeals for the Federal Circuit’s (“Federal Circuit”) judgment that *inter partes* review does not violate Article III or the Seventh Amendment of the U.S. Constitution. 138 S. Ct. 1365 (U.S. 2018). The decision centered on the debate over whether issued patents are a “public right” or a “private right.” The Court had previously recognized that “the decision to grant a patent is a matter involving public rights—specifically, the grant of a public franchise.” *Id.* at 1373. Therefore, the Court held, because “*inter partes* review is simply a reconsideration of that grant, and Congress has permissibly reserved the PTO’s authority to conduct that reconsideration,” that the PTO can reevaluate the patentability of claims without violating Article III. *Id.* The 7-2 majority opinion of the Court was written by Justice Thomas and joined by Justices Kennedy, Ginsburg, Breyer, Alito, Sotomayor and Kagan. Justice Gorsuch filed a dissenting opinion, in which Chief Justice Roberts joined.

### **A. Question Presented**

The Supreme Court accepted certiorari on the question of “whether *inter partes* review—an adversarial process used by the Patent and Trademark Office . . . to analyze the validity of existing patents—violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury.” See *Oil States Energy Services, LLC v. Greene’s Energy Group, LLC*, 137 S. Ct. 2239 (U.S. 2018).

### **B. Background**



The Leahy-Smith America Invents Act of 2012 (“AIA”) established a process called *inter partes* review (“IPR”) by which the U.S. Patent and Trademark Office (“PTO”) may reconsider and cancel wrongly issued patent claims. The procedure may only be commenced by a third-party petitioner and not by the owner of the patent at issue. 35 U.S.C. § 311(a). The petitioner may file a petition with the PTO seeking cancellation of claims as obvious or anticipated. 35 U.S.C. § 311(b). If there is a “reasonable likelihood that the petitioner would prevail with respect to at least 1 of the claims challenged,” and review is granted, the Patent Trial and Appeal Board (“PTAB”) will examine the patent’s validity. 35 U.S.C. §§ 314, 316. Unless the proceeding is settled or dismissed, the PTAB must issue a final written decision, confirming or canceling patent claims. 35 U.S.C. § 318. The decision is subject to judicial review by the Federal Circuit. 35 U.S.C. § 319.

In the IPR proceeding below, the PTAB issued a final written decision holding the challenged claims of the patent owned by Oil States Energy Services, LLC (“Oil States”) to be unpatentable. 138 S. Ct. at 1372. In appealing from the PTAB’s decision, Oil States challenged the constitutionality of IPR, arguing that “actions to revoke a patent must be tried in an Article III court before a jury.” *Id.* The Federal Circuit affirmed the PTAB’s decision because it had already rejected such constitutional arguments in *MCM Portfolio LLC v Hewlett-Packard Co.* 812 F.3d 1284 (Fed. Cir. 2015). The Supreme Court granted certiorari to determine whether IPR violates Article III or the Seventh Amendment of the U.S. Constitution and concluded that it violates neither. 138 S. Ct. at 1379.

### C. Analysis

In reaching its decision, the Court focused on whether issued patents are a “public right” or a “private right.” The Court’s “precedents have distinguished between ‘public rights’ and ‘private rights’” when determining whether a proceeding should involve an “exercise of Article III judicial power.” *Id.* at 1373. These precedents have given Congress the power “to assign adjudication of public rights,” as opposed to private rights, to decision-making entities other than Article III federal courts. *Id.*

Since the grant of a patent has been recognized as a “matter involving public rights,” and because “*inter partes* review involves the same basic matter as the grant of a patent,” the Supreme Court determined that “[i]nter partes review falls squarely within the public rights doctrine.” *Id.* at 1373-74. Specifically, the Court explained that:

This Court has recognized, and the parties do not dispute, that the decision to *grant* a patent is a matter involving public rights—specifically, the grant of a public franchise. *Inter partes* review is simply a reconsideration of that grant, and Congress has permissibly reserved the PTO’s authority to conduct that reconsideration. Thus, the PTO can do so without violating Article III.

*Id.* at 1373.

Citing *Cuozzo Speed Technologies, LLC v. Lee*, 136 S. Ct. 2131, 2144 (U.S. 2016), the Court reaffirmed that IPRs are merely a “second look at an earlier administrative grant of a patent,” because “[t]he Board considers the same statutory requirements that the PTO considered when granting the patent.” *Id.* at 1374. Considering these same statutory requirements prevents the “issuance of patents whose effects are to remove existent knowledge from public domain.” *Id.* Similar to the initial review of a patent application:



[T]he Board's inter partes review protects "the public's paramount interest in seeing that patent monopolies are kept within their legitimate scope," *Cuozzo*. Thus, inter partes review involves the same interests as the determination to grant a patent in the first instance.

*Id.* (citations omitted).

It "does not make a difference" that IPR occurs after the issue of a patent. *Id.* In fact, the grant of a patent claim is subject to the qualification that the PTO has the authority to reexamine, and potentially cancel, the patent claim in IPR. *Id.* Thus, patents remain subject to the PTAB's authority even after the issue of the patent. *Id.*

Next, the Court determined that the prior decisions cited by Oil States that recognize patent rights as the "private property of the patentee" do not contradict the conclusion that IPR does not violate Article III. *Id.* at 1375. The Court noted that those precedents were decided under the Patent Act of 1870, which did not provide for any post-issuance administrative review, and held that "[t]hose precedents . . . are best read as a description of the statutory scheme that existed at that time." *Id.* at 1376.

The Court also held that, contrary to the contention by Oil States and the dissent, "history does not establish that patent validity is a matter that, 'from its nature,' must be decided by a court." *Id.* (citation omitted). The Court explained:

Historical practice is not decisive here because matters governed by the public rights doctrine "from their nature" can be resolved in multiple ways: Congress can "reserve to itself the power to decide," "delegate that power to executive officers," or "commit it to judicial tribunals." That Congress chose the courts in the past does not foreclose its choice of the PTO today.

*Id.* at 1378 (citation omitted).

In addition, the Court rejected Oil States's argument that IPR violates Article III based on the similarities between the various procedures used in IPR and typical court procedures, noting that:

[T]his 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.

*Id.* (citation omitted).

Finally, the Court determined that IPR does not violate the Seventh Amendment, because "when Congress properly assigns a matter to adjudication in a non-Article III tribunal, the Seventh Amendment poses no independent bar to the adjudication of that action by a nonjury factfinder." *Id.* at 1379 (citations and internal quotation marks omitted).

Emphasizing the narrowness of its holding, the Court noted that its decision only addresses the constitutionality of IPR and that it does not consider "whether inter partes review would be constitutional without any sort of intervention by a court at any stage of the proceedings." *Id.* (citation and internal quotation marks omitted). The



Court also explained that “Oil States does not challenge the retroactive application of inter partes review, even though that procedure was not in place when its patent issued.” *Id.* Finally, the Court cautioned against misconstruing its decision “as suggesting that patents are not property for purposes of the Due Process Clause or the Takings Clause.” *Id.* (citations omitted).

#### **D. Concurrence**

Justice Breyer, joined by Justices Ginsberg and Sotomayor, concurred, emphasizing that the Court’s conclusion does not necessarily bar private rights from being adjudicated in anything other than by Article III courts. *Id.* (Breyer, J., concurring).

#### **E. Dissent**

Justice Gorsuch’s dissenting opinion, joined by Chief Justice Roberts, analogized a patent to a “personal right—no less than a home or a farm,” and argued that patent rights should be adjudicated by Article III courts. *Id.* at 1380 (Gorsuch, J., dissenting). According to the dissent, patentees can only be divested of patent rights by Article III judges. *Id.* Disputing the Court’s equation of grant and revocation, the dissent argued that just because one gives a gift, such as a patent, does not mean that one can forever enjoy the right to reclaim it. *Id.* at 1385. Such a stance, they viewed, is “a retreat from Article III’s guarantees.” *Id.* at 1386.

### ***II. SAS Institute Inc. v. Iancu***

On the same day that the *Oil States* decision was issued, the Supreme Court also issued a 5-4 opinion in *SAS Institute Inc. v. Iancu* that reversed the decision of the Federal Circuit and held that “the petitioner in an *inter partes* review is entitled to a decision on all the claims it has challenged.” 138 S. Ct. 1348, 1358 (U.S. 2018).

The majority opinion, written by Justice Gorsuch and joined by Chief Justice Roberts and Justices Kennedy, Thomas and Alito, concluded that 35 U.S.C. § 318(a) provides a “clear” answer, because “any” in this statutory provision means “every.” *Id.* at 1353. The decision focuses heavily on the plain language of the statute and determined that “everything in the statute before [the Court] confirms that [petitioner] is entitled to a final written decision addressing *all of the claims it has challenged* and nothing suggests [that the Court] lack[s] the power to say so[.]” *Id.* at 1360.

#### **A. Question Presented**

The Supreme Court granted certiorari on the question: “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 that Board to issue a final written decision as to every claim challenged by the petitioner, or does it allow that Board to issue a final written decision with respect to the patentability of only some of the patent claims challenged by the petitioner, as the Federal Circuit held?” *SAS Institute Inc. v. Lee*, 137 S. Ct. 2160 (U.S. 2017).



## B. Background

By way of background, this case began when SAS Institute Inc. (“SAS”) petitioned for IPR of ComplementSoft, LLC’s (“ComplementSoft”) software patent. *Id.* at 1353. In its petition, SAS alleged that all 16 of the patent’s claims were unpatentable. The PTAB concluded that SAS likely would succeed with respect to at least one of the claims and that an IPR was warranted. However, the PTAB did not institute review on all of the challenged claims in the petition, and instead, only instituted review on some of the claims while denying review on the rest. The final written decision ultimately issued by the PTAB did not address those claims on which the PTAB refused to institute review. SAS, 138 S. Ct. at 1354.

SAS appealed to the Federal Circuit, arguing that 35 U.S.C. § 318(a) required the PTAB to decide the patentability of *every* claim a petitioner challenges in its petition, not just some. *Id.*

The relevant statute addressed by the SAS Court, as applied to IPRs, provides:

### (a) Final Written Decision—

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).

35 U.S.C. § 318(a) (emphasis added).

The Federal Circuit rejected SAS’s argument and the Supreme Court granted certiorari to decide the question for itself. SAS, 137 S. Ct. at 2160.

## C. Analysis

The majority of the Court found that the plain language of the text of 35 U.S.C. § 318(a) “supplies a ready answer.” SAS, 138 S. Ct. at 1354. In particular, the Court focused on interpretation of the terms “shall” and “any” in the statute. While “shall” tends to “impose[] a nondiscretionary duty,” the “any” carries a more “expansive meaning.” *Id.* Therefore, the Court determined that the statute requires that “the Board *must* address *every* claim the petitioner has challenged.” *Id.* (emphasis added).

In reaching the decision, the Court rejected the notion that the Director of the Patent Office (“Director”) retains a discretionary “partial institution” power since such power does not appear anywhere in the statute. Instead, the Court explained:

Much as in the civil litigation system it mimics, in an *inter partes* review the petitioner is master of its complaint and normally entitled to judgment on all of the claims it raises, not just those the decisionmaker might wish to address.

*Id.* at 1355.



In this connection, the Court observed that “[f]rom the outset, we see that Congress chose to structure a process in which it’s the petitioner, not the Director, who gets to define the contours of the proceeding.” *Id.*

35 U.S.C. § 314(a) provides that the Director may not institute an IPR unless “there is a reasonable likelihood” that the petitioner will prevail on at least one of the challenged claims. *Id.* at 1356. However, the Court rejected the Director’s argument that the this statutory provision on institution of *inter partes* review supports the Director’s “partial institution” power because, “while § 314(a) invests the Director with discretion on the question *whether* to institute review, it doesn’t follow that the statute affords him discretion regarding *what* claims that review will encompass.” *Id.*

The Director also argued that because language of the statute requires him to “evaluate claims individually,” it, therefore, allows him to institute review on a claim-by-claim basis. However, the Court reasoned:

Section 314(a) . . . simply requires [the Director] 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.

*Id.* at 1356.

The Director’s argument that the statute is ambiguous on the propriety of the partial institution practice was flatly denied. “[A]fter applying traditional tools of interpretation here, we are left with no uncertainty that could warrant deference” to the Director’s interpretation under *Chevron USA Inc. v Natural Resources Defense Council, Inc.*, 467 US 837 (1984). *Id.* at 1538. “There is no room in this [statutory] scheme for a wholly unmentioned ‘partial institution’ power that lets the Director select only some challenged claims for decision.” *Id.*

The Court also rejected the Director’s argument that judicial review of the question of whether the partial institution practice is permitted under the statute is itself foreclosed by 35 U.S.C. § 314(d) and previous Supreme Court precedent in *Cuozzo*. The Court determined that the Director “overread[] both the statute and [the Court’s] precedent,” and held that judicial review remains available to determine whether the Director exceeded his statutory authority by limiting IPR to fewer than all of the claims the petitioner challenged. *Id.* at 1360.

Finally, the Court rejected the Director’s policy argument on the efficiency of partial institution, noting that “[p]olicy arguments are properly addressed to Congress, not this Court.” *Id.* at 1358.

Ultimately, the Court decided that “everything in the statute before [the Court] confirms that [petitioner] is entitled to a final written decision addressing all of the claims it has challenged and nothing suggests [that the Court] lack[s] the power to say so[.]” *Id.* at 1360.





#### D. Dissenting Opinions

In a dissent, Justice Ginsburg described the majority's reading of the statute as "wooden" and lacking of any true understanding of congressional intent. *Id.* at 1360 (Ginsburg, J., dissenting). Justice Ginsburg also fully supported Justice Breyer's dissenting opinion.

In his separate dissent, Justice Breyer argued that the statute is ambiguous and that the PTO's interpretation is reasonable. His dissent observes that, under *Chevron*, an agency is granted leeway to enact rules that are reasonable in light of the text, nature, and purpose of an ambiguous statute. *Id.* at 1364 (Breyer, J., dissenting). He explained that, "there is a gap, the agency possesses gap-filling authority, and it filled the gap with a regulation that . . . is a reasonable exercise of that authority." *Id.* at 1365.

#### E. The PTO's Response to the SAS Decision

On April 26, 2018, just two days after the SAS decision, the PTAB issued guidance on the effects the Supreme Court's decision would have on the IPR process and other AIA proceedings.

The PTAB's new guidelines clarify that from April 26 on, "[a]s required by the decision, the PTAB will *institute as to all claims or none*," and if a trial is instituted, the PTAB will institute on "all challenges raised in the petition," Memorandum from the Patent Trial and Appeal Board on Guidance on the Impact of SAS

<https://www.uspto.gov/patents-application-process/patent-trial-and-appeal-board/trials/guidance-impact-sas-aia-trial> (emphasis added). In other words, a petition will either be granted in its entirety, or denied in its entirety. *Id.*



For cases in which the PTAB has already instituted an IPR on only some (but not all) of the challenges raised in the petition, “the panel may issue an order supplementing the institution decision to institute on all challenges raised in the petition.” *Id.* The PTAB panel may then take further action to manage the trial proceeding, including, for example, permitting additional time, briefing, discovery, and/or oral argument, depending on various circumstances and the stage of the proceeding. *Id.*

Finally, the new guidelines specify that “upon receipt of an order supplementing the institution decision, the petitioner and patent owner *shall meet and confer* to discuss the need for additional briefing and/or any other adjustments to the schedule. While the Board may act *sua sponte* in some cases, *additional briefing and schedule adjustments might not be ordered if not requested by the parties.*” *Id.* (emphasis added). The parties may agree to *affirmatively waive additional briefing or schedule changes,*” and contact the Board to discuss any request. *Id.* (emphasis added).

As for the scope of the final written decision, it “will address, to the extent claims are still pending at the time of decision, all patent claims challenged by the petitioner and all new claims added through the amendment process.” *Id.*

Concurrent with the issued guidance, the PTAB designated as informative its order in *Western Digital Corp. v. SPEX Techs., Inc.*, IPR2018-00082, Paper 11 (PTAB Apr. 25, 2018). In this case, IPR was instituted on all of four grounds against 11 claims presented in the petition, even though only two grounds against two claims met the reasonable likelihood threshold.

Additionally, as a sample order supplementing an institution decision, *Emerson Elec. Co. v. IPCO, LLC*, IPR2017-00213, Paper 41 (PTAB Apr. 26, 2018), was recognized as being informative for amending the institution decision to include review of all claims and all grounds presented in the petition, and to asking whether the parties desire any changes to the schedule or additional briefing.

Lastly, *SK Hynix Inc. v. Netlist, Inc.*, IPR2017-00548, Paper 25 at 16 (PTAB May 3, 2018), was recognized as being a sample post-SAS final written decision. The final written decision addressed only the instituted grounds (two out of five grounds presented in the petition), but authorized the parties to file a rehearing request “[t]o the extent either Patent Owner or Petitioner believes that the Court’s decision in *SAS Institute* requires additional consideration in this proceeding.” *Id.*

### **III. *WesternGeco LLC v. ION Geophysical Corp.***

On June 22, 2018, the Supreme Court in *WesternGeco LLC v. ION Geophysical Corp.* reversed the Federal Circuit’s decision, and held in a 7-2 decision that a patent owner can collect lost foreign profits. 138 S. Ct. 2129 (U.S. 2018).

The majority opinion authored by Justice Thomas, joined by Chief Justice Roberts and Justices Kennedy, Ginsburg, Alito, Sotomayor and Kagan, confirmed that the presumption against extraterritoriality does not preclude patent owners from recovering lost profits that arise from infringement resulting from conduct outside of the United States. The majority opinion concentrated on “the focus” of the statute, and whether that “focus” can be said to have occurred domestically. *Id.* at 2137-38.

#### **A. Question Presented**

*WesternGeco* addressed an important question regarding whether a patent owner can recover damages for a defendant’s activities outside the United States. Specifically, the Supreme Court granted certiorari on the question of “whether the court of appeals erred in holding that lost profits arising from prohibited combinations





occurring outside of the United States are categorically unavailable in cases where patent infringement is proven under 35 U.S.C. § 271(f).” See *WesternGeco LLC v. ION Geophysical Corp.*, 138 S. Ct. 734 (U.S. 2018).

## B. Background

WesternGeco LLC (“WesternGeco”) owns patents for a system used to scan the ocean floor for oil and gas deposits. *WesternGeco*, 138 S. Ct. at 2135. ION Geophysical Corp. (“ION”) began selling a competing system that was built from components manufactured in the United States. *Id.* The components were shipped by ION to companies abroad, which then assembled the components to create a system that is indistinguishable from—and competes with—that of WesternGeco. *Id.*

WesternGeco brought suit against ION alleging patent infringement under 35 U.S.C. § 271(f)(2) of the Patent Act, thereby arguing its entitlement to damages to compensate for infringement under 35 U.S.C. § 284. *Id.*

The United States District Court for the Southern District of Texas found ION liable for infringement, and awarded WesternGeco \$93.4 million in damages. *Id.*

ION appealed to the Federal Circuit, arguing that WesternGeco could not recover damages for lost profits because § 271(f) does not apply extraterritorially. Because it had previously held that the general infringement provision, § 271(a), does not allow patent owners to recover for lost foreign sales, the Federal Circuit reasoned that § 271(f) should be interpreted in the same way. *Id.* Therefore, the Federal Circuit held that WesternGeco was not entitled to damages for lost foreign profits. *Id.*

WesternGeco petitioned for review in the Supreme Court, which granted certiorari on the question of whether the general damages provision, 35 U.S.C. § 284, permits recovery of foreign lost profits for infringement under 35 U.S.C. § 271(f)(2). *Id.* at 2135-36.

## C. Analysis

Reversing the decision of the Federal Circuit below, the Supreme Court concluded that WesternGeco’s award for lost foreign profits attributable to domestic acts of infringement under 35 USC § 271(f)(2) was a permissible domestic application of § 284. *Id.* at 2139. The Court determined that the “focus” of § 284 was “infringement,” and that the infringement at issue —namely the supplying of components—was domestic. *Id.* at 2138.



Because Congress is said to generally legislate with domestic concerns in mind, and to prevent dispute between our laws and those of other nations, the presumption of the Courts is that federal statutes only “apply only within the territorial jurisdiction of the United States.” *Id.* at 2136.

The Supreme Court has established a two-step framework for determining questions of extraterritoriality. *Id.* **First**, a court asks “whether the presumption against extraterritoriality has been rebutted.” *Id.* To be considered rebutted, the text must provide a “clear indication of an extraterritorial application.” *Id.* If the presumption against extraterritoriality has not been rebutted, the **second** step is to ask “whether the case involves a domestic application of the statute.” *Id.* This determination is made by identifying the “focus” of the statute, and asking “whether the conduct relevant to that focus occurred in the United States territory.” *Id.* If the answer to this question is in the affirmative, then the case involves a permissible domestic application of the statute. *Id.*

While it is preferable to begin the analysis at step one, courts have discretion to begin with step two in “appropriate cases,” where addressing step one would require resolving “difficult questions” that do not change “the outcome of the case” but could have far-reaching effects in future cases. *Id.* In this case, the Court decided to exercise the discretion to begin with step two. *Id.* at 2136-37.

In determining whether the case involves domestic applications of the statutes, the second step requires consideration of the “focus” of the statutes. *Id.* at 1237. The Court explained, the “‘focus’ of a statute is the ‘objec[t] of [its] solicitude,’ which can include the conduct it ‘seeks to regulate,’ as well as the parties and interests it ‘seeks to protect[t]’ or vindicate.’” *Id.* The case involves permissible domestic application of the statute if the conduct relevant to the statute’s focus occurred in the United States. However, regardless of any other conduct that occurred within the United States, if the relevant conduct occurs in another country, the extraterritorial application of the statute is impermissible. *Id.*

Applying the above principles to the statutes at issue in the case at hand, the Court concluded that the conduct relevant to the statutory focus in the case was domestic.