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# ALL OR NOTHING: WHY THE SUPREME COURT SAS MANDATE DOES NOT ELIMINATE THE *SHAW* SAFE HARBOR

MATT JOHNSON, MICHAEL LAVINE, DANIEL KAZHDAN PH.D., LISA FURBY, DAVID ANDERSON

## INTRODUCTION

The Patent Trial and Appeal Board (“PTAB”) has become one of the busiest patent dockets in the United States. It is on track to receive over 1,500 requests for America Invents Act (“AIA”) trials in the fiscal year 2018.<sup>1</sup> Most of these requests are for *inter partes* review (“IPR”), through which petitioners can challenge an issued patent based on prior-art “patents or printed publications.”<sup>2</sup> While wildly popular as a mechanism for reviewing issued patents, the PTAB has not lived up to all stakeholders’ expectations as a method for one-stop resolution of patent validity.

When IPRs were enacted, Congress added an “estoppel” provision: once the PTAB upholds a patent in a Final Written Decision, the petitioner, its privies, and its real parties-in-interest are estopped from challenging the patent “on any ground that the petitioner raised or reasonably could have raised during that inter partes review.” 35 U.S.C. § 315(e). Some felt that once the Patent Office institutes an IPR, the IPR should, therefore, operate as a complete substitute for district court challenges to patent claims under 35 U.S.C. §§ 102 and 103 based on patents and printed publications. For example, when the Senate was discussing the AIA, Senator Grassley expressed his hope that instituted IPRs would “completely substitute for at least the patents-and-printed-publications portion of the civil litigation.”<sup>3</sup>

1. *Trial Statistics IPR, PGR, CBM*, U.S. PAT. & TRADEMARK OFF. (July 2018), [https://www.uspto.gov/sites/default/files/documents/trial\\_statistics\\_20180731.pdf](https://www.uspto.gov/sites/default/files/documents/trial_statistics_20180731.pdf).

2. 35 U.S.C. § 311(b) (2012).

3. 157 CONG. REC. S1360-94 (daily ed. Mar. 8, 2011) (statement of S. Grassley).

Federal Circuit Judge Newman has likewise described IPRs as a “complete alternative and complete substitution” for district-court litigation.<sup>4</sup>

But that has not been the case. If the Patent Office refused to institute an IPR on some grounds, as it used to do routinely, courts would allow petitioners to raise those non-instituted grounds in later district-court litigation.<sup>5</sup> Thus, patent owners and petitioners would frequently have to litigate the same patent and the same claims both before the PTAB and before a district court. The Supreme Court’s recent decision in *SAS Institute Inc. v. Iancu* will reduce such fractured litigations,<sup>6</sup> but as this article shows, *SAS* will not eliminate them entirely.

This article proceeds in three parts. Part I summarizes the Patent Office’s pre-*SAS* approach of partially instituting IPRs. When the Patent Office only instituted review on some grounds, courts (most notably the Federal Circuit in *Shaw Industries v. Automated Creel Systems*) generally allowed petitioners to re-raise those non-instituted grounds in later district-court proceedings. Part II explains that the Supreme Court’s *SAS* decision and its progeny largely prevents partial institutions, and therefore, many of the thorny estoppel issues will no longer arise. However, as Part III notes, the Patent Office continues to only partially institute review when multiple grounds are raised in *multiple petitions*. Thus, estoppel questions will still arise. The Conclusion addresses potential strategy implications for petitioners and patent owners.

#### THE PATENT OFFICE’S APPROACH PRE-*SAS* ALLOWED FOR PARTIAL INSTITUTION OF A SINGLE PETITION

Prior to *SAS*, the Patent Office regulations permitted the PTAB to simplify cases by instituting trial on only “some of the challenged claims” and only “some of the grounds of unpatentability asserted for each claim.”<sup>7</sup> The Patent Office’s approach in *SAS* is illustrative. *SAS* filed an IPR petition seeking review of one of ComplementSoft’s patents. The petition

4. *SAS Inst., Inc. v. ComplementSoft, LLC*, 825 F.3d 1341, 1354 (Fed. Cir. 2016) (Newman, J., concurring in part).

5. *See generally* *Shaw Indus. Grp., Inc. v. Automated Creel Sys., Inc.*, 817 F.3d 1293 (Fed. Cir. 2016); *see also* *Credit Acceptance Corp. v. Westlake Servs.*, 859 F.3d 1044, 1053 (Fed. Cir. 2017); *HP Inc. v. MPHJ Tech. Inv., LLC*, 817 F.3d 1339, 1347 (Fed. Cir. 2016); *Intellectual Ventures I LLC v. Toshiba Corp.*, 221 F. Supp. 3d 534, 553 (D. Del. 2016); *Verinata Health, Inc. v. Ariosa Diagnostics, Inc.*, No. 3:12-cv-05501-SI, 2017 WL 235048, at \*4 (N.D. Cal. Jan. 19, 2017); and *Finjan, Inc. v. Blue Coat Sys.*, 283 F. Supp. 3d 839, 856–57 (N.D. Cal. 2017).

6. *SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348 (2018).

7. 37 C.F.R. § 42.108(a) (2012).

challenged all 16 claims of the patent.<sup>8</sup> The Board instituted IPR for only claims 1 and 3-10, denying institution for claims 2 and 11-16.<sup>9</sup> In its final written decision, the Board found claims 1, 3 and 5-10 unpatentable but did not address any of the claims that were not instituted.<sup>10</sup> SAS appealed, arguing that the Board was required to review all of the claims identified in SAS's petition and that it was unfair that the validity of the uninstituted claims would have to be relitigated in district court.<sup>11</sup> The Federal Circuit rejected this argument.<sup>12</sup>

The Patent Office's pre-SAS partial-institution approach raised a difficult estoppel question. As petitioners routinely argued, it would seem to be unfair to estop a petitioner from re-raising, to a district court, grounds that the Patent Office refused to consider in the first place. The Federal Circuit agreed. In *Shaw*, it held that a petitioner is not estopped from raising non-instituted grounds in a district court proceeding if the Patent Office refused to institute on those grounds in an IPR. According to *Shaw*, “[t]he IPR does not begin until it is instituted,” and the very fact that the Patent Office denies institution is evidence that the petitioner “did not raise—nor could it have reasonably raised—the [non-instituted] ground *during* the IPR.”<sup>13</sup>

#### THE PATENT OFFICE CAN NO LONGER PARTIALLY INSTITUTE IPR PETITIONS

In *SAS*, the Supreme Court rejected the Patent Office's practice of instituting IPR petitions on only some of the claims challenged in the petition. The Court marshaled a number of arguments. *First*, “in an inter partes review the petitioner is master of its complaint and normally entitled to judgment on all of the claims it raises.”<sup>14</sup> *Second*, the Court emphasized the statutory command that the Board address “any patent claim

8. *SAS Inst., Inc. v. ComplementSoft, LLC*, IPR2013-00226, Paper 1 at 11–12 (P.T.A.B., Mar. 29, 2013).

9. *SAS Inst., Inc. v. ComplementSoft, LLC*, IPR2013-00226, Paper 9 at 22 (P.T.A.B., Aug. 12, 2013).

10. *SAS Inst., Inc. v. ComplementSoft, LLC*, IPR2013-00226, Paper 38 (P.T.A.B., Aug. 6, 2014).

11. *SAS Inst., Inc. v. ComplementSoft, LLC*, 825 F.3d 1341 (Fed. Cir. 2016), *reh'g denied*, 842 F.3d 1223 (Fed. Cir. 2016).

12. *Id.*

13. *Shaw Indus. Grp., Inc. v. Automated Creel Sys., Inc.*, 817 F.3d 1293, 1300 (Fed. Cir. 2016); accord *HP Inc. v. MPHJ Tech. Inv., LLC*, 817 F.3d 1339, 1347 (Fed. Cir. 2016) (“[T]he noninstituted grounds do not become a part of the IPR . . . [T]he noninstituted grounds were not raised and, as review was denied, could not be raised in the IPR.”).

14. *SAS Inst., Inc. v. Iancu*, 138 S. Ct. 1348, 1355 (2018).

challenged by the petitioner.”<sup>15</sup> According to the majority, this required a decision on the patentability of “every claim.”<sup>16</sup> The Supreme Court’s *SAS* decision is thus clear that, when a trial is instituted, every *claim* requested by the petitioner must be included and addressed in the Final Written Decision.

*SAS* does not explicitly resolve whether “all grounds” presented in a petition must also be included in an instituted trial. On the one hand, the quoted statutory provision about “any patent claim” does not address multiple grounds. On the other hand, the master-of-its-complaint rationale would seem to apply to grounds as well as to claims. Shortly after *SAS*, the Patent Office decided that, if it instituted an IPR, it would do so not only on all of the challenged claims, as is required by *SAS*, but also “on all challenges raised in the petition.”<sup>17</sup> The Federal Circuit has since ratified that stance, explaining that “equal treatment of claims and grounds for institution purposes has pervasive support in *SAS*.”<sup>18</sup>

#### THE PTAB’S POST-SAS TREATMENT OF MULTIPLE PETITIONS CHALLENGING A COMMON PATENT

*SAS* and its progeny partially solve the estoppel problem addressed by *Shaw*. The Patent Office can no longer institute only some petitioned-for grounds *if* all the grounds are raised in a *single petition*. It has a binary choice of either instituting all grounds or none. But what if multiple grounds are raised in *multiple petitions*, and the Patent Office institutes some petitions but not others—what this article will call “mixed-institution cases”? In those cases, the PTAB might not resolve all §§ 102 and 103 disputes. Under *Shaw*, it might be that the grounds raised in such non-instituted petitions could be raised in subsequent district-court litigations, without any potential estoppel. If so, patent owners and petitioners would still face the possibility of having to litigate the validity of a patent in multiple fora. This is not an edge-case issue; one-third of all patents

15. *Id.* at 1354 (quoting 35 U.S.C. § 318(a)).

16. *Id.*

17. See *Guidance on the Impact of SAS on AIA Trial Proceedings*, USPTO, (Apr. 26, 2018), [https://www.uspto.gov/sites/default/files/documents/guidance\\_on\\_the\\_impact\\_of\\_sas\\_on\\_aia\\_trial\\_proceedings\\_%20\(april\\_26,\\_2018\).pdf](https://www.uspto.gov/sites/default/files/documents/guidance_on_the_impact_of_sas_on_aia_trial_proceedings_%20(april_26,_2018).pdf).

18. *Adidas AG v. Nike, Inc.*, 894 F.3d 1256, 1258 (Fed. Cir. 2018) (quoting *PGS Geophysical AS v. Iancu*, 891 F.3d 1354, 1360 (Fed. Cir. 2018)) (citations omitted).

challenged at the Patent Office are challenged via multiple petitions.<sup>19</sup> The authors expect that mixed institutions will arise regularly.

We have identified at least ten post-SAS mixed institution cases. A selection of these occurrences is discussed in detail below. Interestingly, none of the decisions note SAS as being a factor that is relevant to instituting trial in one IPR but not the other. Moreover, we have identified no instances in which the PTAB relied on SAS as a basis for instituting a second IPR after already instituting a first IPR challenging the same patent. The PTAB seemingly does not consider SAS to be a relevant factor across multiple petitions challenging the same patent.

#### A SURVEY OF MIXED POST-SAS PTAB INSTITUTIONS ACROSS PETITIONS CHALLENGING A COMMON PATENT

Several of the Patent Office's denials in mixed-institution cases were based on non-substantive, discretionary reasons.<sup>20</sup> Most of these are based on the PTAB's view that petitioners should not be allowed to "strategically stage their prior art and arguments in multiple petitions, using our decisions as a roadmap, until a ground is found that results in the grant of review."<sup>21</sup>

In its *General Plastic Industries Co., Ltd. v. Canon Kabushiki Kaisha* precedential decision, the PTAB enumerated seven relevant factors for determining whether to deny institution based on another petition challenging the same patent.<sup>22</sup> Running afoul of the *General Plastic* timing

19. See David P. Ruschke et al., *Chat with the Chief, An Analysis of Multiple Petitions in AIA Trials*, U.S. PAT. & TRADEMARK OFF. (Oct. 24, 2017), [https://www.uspto.gov/sites/default/files/documents/Chat\\_with\\_the\\_Chief\\_Boardside\\_Chat\\_Multiple\\_Petition\\_Study\\_20171024.pdf](https://www.uspto.gov/sites/default/files/documents/Chat_with_the_Chief_Boardside_Chat_Multiple_Petition_Study_20171024.pdf).

20. See e.g., *BASF SE v. Fresenius Med. Care Holdings, Inc.*, IPR2018-00283, Paper No. 7 at 5 (P.T.A.B. June 11, 2018) (noting that "[i]nstitution of *inter partes* review is discretionary.>").

21. *Gen. Plastic Indus. Co., Ltd. v. Canon Kabushiki Kaisha*, IPR2016-01357, 2017 WL 3917706, at \*7 (P.T.A.B. Sept. 6, 2017).

22. *Id.* at \*7. The Board identified seven nonexclusive factors that bear on the issue of whether the Board should invoke its discretion to deny institution of an IPR, based on a follow-on petition on the same patent, under 35 U.S.C. § 314(a): (1) whether the same petitioner previously filed a petition directed to the same claims of the same patent; (2) whether at the time of filing of the first petition the petitioner knew of the prior art asserted in the second petition or should have known of it; (3) whether at the time of filing of the second petition the petitioner already received the patent owner's preliminary response to the first petition or received the Board's decision on whether to institute review in the first petition; (4) the length of time that elapsed between the time the petitioner learned of the prior art asserted in the second petition and the filing of the second petition; (5) whether the petitioner provides adequate explanation for the time elapsed between the filings of multiple petitions directed to the same claims of the same patent; (6) the finite resources of the Board; and (7) the requirement under 35 U.S.C. § 316(a)(11) to issue a final determination not later than one year after the date on which the Director notices institution of review.

factors can result in denial of an institution, even when the IPR is proper and might otherwise be instituted.

*Alcatel-Lucent USA Inc. v. Oyster Optics, LLC*, IPR2018-00070; -00257 is illustrative. In October 2017, a number of petitioners sought IPR of Oyster’s patent (the -00070 matter). Five weeks later, those same petitioners filed a second petition (the -00257 matter) that challenged the same claims using different prior art. In its preliminary response, the patent owner urged the Patent Office to exercise its discretion to deny institution in the second matter. The Board analyzed the issue under the *General Plastic* framework and concluded that the petitioners had “not provided an adequate explanation for the time elapsed between the filing of the ‘0070 Petition and [the ‘00257] Petition.”<sup>23</sup> The Board also observed that the petitioners “ha[d] not explained why we should institute on another set of grounds that rely on [overlapping secondary references].”<sup>24</sup> These factors convinced the Board to exercise its discretion and not institute.<sup>25</sup>

Other denials in mixed-institution cases were based on one petition failing to meet the substantive threshold for an institution. For example, in

23. *Alcatel-Lucent USA, Inc. v. Oyster Optics, LLC*, IPR2018-00257, Paper No. 14 at 25 (P.T.A.B. June 4, 2018).

24. *Id.* at 26.

25. Additional examples of the Board exercising its discretionary authority under § 314(a) to institute trial on a first petition but not a second challenging a common patent: *compare* *Am. Honda Motor Co., Inc. v. Intellectual Ventures II LLC*, IPR2018-00443 (P.T.A.B. Apr. 25, 2018) *with* *Honda Motor Co., Inc. v. Intellectual Ventures II LLC*, IPR2018-00348 (P.T.A.B. June 27, 2018) (joining Honda to a preexisting IPR in -00443 but denying institution in -00348 largely based on General Plastic Factor 3, because Honda had seen certain patent owner briefing prior to filing its -00348 petition); *compare* *Am. Honda Motor Co., Inc. v. Intellectual Ventures II LLC*, IPR2018-00442 (P.T.A.B. Apr. 25, 2018) *with* *Am. Honda Motor Co., Inc. v. Intellectual Ventures II LLC*, No. IPR2018-00347 (P.T.A.B. June 27, 2018) (denying institution in the -00347 matter on similar facts as in -00348 discussed above); *compare* *BASF SE v. Fresenius Med. Care Holdings, Inc.*, IPR2017-01948 (P.T.A.B. Mar. 12, 2018) *with* *BASF SE v. Fresenius Med. Care Holdings, Inc.*, IPR2017-00283 (P.T.A.B. June 11, 2018) (instituting trial in the -01948 matter while noting weaknesses in the petitioner’s position on some dependent claims but denying institution in the -00283 matter that presented augmented grounds to “patch holes” in the -01948 grounds for those dependent claims using references of which petitioner was aware when filing the -01948 petition); *compare* *Instrumentation Lab. Co. v. Hemosonics LLC*, IPR2017-00855 (P.T.A.B. Sept. 1, 2017) *with* *Instrumentation Lab. Co. v. Hemosonics LLC*, IPR2017-00264 (P.T.A.B. May 10, 2018) (instituting trial in the -00855 matter while noting weaknesses in the petitioner’s position on some claims but denying institution in the -00264 matter based on General Plastic Factor 3 because the follow-on petition used the -00855 Institution Decision as a roadmap for tailoring the -00264 petition). An example of the Board exercising its discretionary authority under § 325(d) to institute trial on a first petition but not a second petition challenging the same patent is *Align Tech., Inc. v. 3Shape A/S*, No. IPR2018-00198 (P.T.A.B. May 30, 2018) (instituting all grounds presented the -00197 matter but exercising discretion under 35 U.S.C. § 325(d) to deny the -00198 petition because arguments were presented by the patent owner during prosecution regarding why a patent that is closely related to one of petitioner’s secondary references does not disclose what petitioner alleged).

*RPX Corp. v. Spycurity LLC*,<sup>26</sup> RPX challenged the same claims of a patent across two petitions, but the grounds presented across the two petitions differed in their primary references.<sup>27</sup> The PTAB instituted trial in the IPR2018-00305 case but found the motivation to combine certain references in the IPR2018-00304 matter unconvincing.<sup>28</sup>

These types of cases raise important estoppel questions. Can the petitioners in *Alcatel-Lucent* raise the grounds that were in the non-instituted petition in a later district-court proceeding? Can RPX? Under *Shaw*, arguably they could.

Because the *General Plastic* timing factors are known, and petition timing is controlled by the petitioner, a petitioner theoretically could craft its petitions in a way that one is likely to be denied. For example, the petitioner could file a first petition containing the grounds that it wishes to present to the PTAB. Three months later, the same petitioner could file a second petition that contains the grounds it wishes to preserve for use in district court. The Patent Office would likely deny the second petition under *General Plastic*, potentially avoiding any estoppel. If the petitioner were not estopped from raising the grounds from the second petition in district court, the petitioner would have a workaround to the one-stop-shopping that some see as a goal of the AIA.

## CONCLUSION

The Supreme Court's decision in *SAS* will mitigate the number of cases in which the same patent and claims are litigated in two different

26. *RPX Corp. v. Spycurity LLC*, IPR2018-00304 (P.T.A.B. June 22, 2018); *RPX Corp. v. Spycurity LLC*, IPR2018-00305 (P.T.A.B. June 22, 2018).

27. *Compare* *RPX Corp. v. Spycurity LLC*, IPR2018-00304, Paper 2 at 2 (P.T.A.B. Dec. 19, 2017) (citing *Crawford*) *with* *RPX Corp. v. Spycurity LLC*, IPR2018-00305 Paper 2 at 2 (P.T.A.B. Dec. 19, 2017) (citing *Staples*).

28. Additional examples of the Board exercising its discretionary authority to institute trial on a first petition but not a second challenging a common patent for substantive reasons: *compare* *GBT Inc. v. Walletx Microelectronics LTD*, IPR2018-00325 (P.T.A.B. July 3, 2018) *with* *GBT Inc. v. Walletx Microelectronics LTD*, IPR2018-00326 (P.T.A.B. July 5, 2018) (instituting trial in -00326 but denying institution in -00325 based on grounds relying on a different primary reference); *compare* *ZTE (USA) Inc. v. Fundamental Innovation Sys. Int'l LLC*, IPR2018-00110 (P.T.A.B. May 8, 2018) *with* *ZTE (USA) Inc. v. Fundamental Innovation Sys. Int'l LLC*, IPR2018-00111 (P.T.A.B. May 9, 2018) (instituting trial in -00111 but denying institution in -00110 based on grounds relying on a different primary reference); *compare* *Sanofi Pasteur Inc. v. Pfizer Inc.*, IPR2018-00187 (P.T.A.B. June 5, 2018) *with* *Sanofi Pasteur Inc. v. Pfizer Inc.*, IPR2018-00188 (P.T.A.B. June 5, 2018) (instituting trial in -00187 but denying institution in -00188 based on grounds relying on a different primary reference); *compare* *Propel Orthodontics, LLC v. Orthoaccel Techs., Inc.*, IPR2018-00296 (P.T.A.B. June 11, 2018) *with* *Propel Orthodontics, LLC v. Orthoaccel Techs., Inc.*, IPR2018-00398 (P.T.A.B. July 5, 2018) (instituting trial in -00296 but denying institution in -00398 based on grounds relying on a different primary reference).

tribunals—generally the PTAB and a district court. The PTAB will have to institute IPR on all the grounds raised in the petition, and its decision will estop a losing petitioner from re-raising those same grounds in district court. However, even after *SAS*, the Patent Office does not have to institute every petition that challenges the same patent. Thus, there may still be non-instituted patent challenges—challenges that, under *Shaw*, a petitioner could potentially later raise in district court. Creative petitioners may use this loophole to their advantage. They could file a first petition with arguments they want to raise to the PTAB; and later, the petitioner could file a second petition based on art it wants to keep for district court litigation. Because of the delay in filing, the Patent Office would likely deny the second petition. A petitioner could thus provide itself with an argument that those backup grounds fall within the *Shaw*'s safe harbor, in which non-instituted grounds are not subject to estoppel, resulting in those grounds being available in district court proceedings even if the PTAB challenge proves unsuccessful.

Patent owners should be aware of such strategies. They might affirmatively ask the Patent Office to issue a consistent ruling on all the petitions—either institute all the petitions or deny all of them. Or they might argue to the district court that allowing such machinations is inequitable or otherwise improper. For example, they could argue that the petitioner “reasonably could have raised” all the grounds raised in the second petition in the first petition and, thus, the petitioner is estopped from raising those grounds in the district court.

*Shaw* appears to remain good law that provides a viable, safe harbor for non-instituted grounds. Although it will be implicated less frequently post-*SAS*, PTAB practitioners should remain cognizant of *Shaw*'s operation and be ready to capitalize or defend against it when circumstances dictate.