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USA: Inter Partes Review Is Here to Stay in Modified Form

Brian Slater (Kramer Levin Naftalis & Frankel LLP) · Thursday, August 9th, 2018

In a previous post [here](#), we described constitutional and procedural challenges to inter partes review (“IPR”) in the *Oil States* and *SAS Institute* cases taken up by the U.S. Supreme Court. We also posted [here](#) on Allergan’s attempt to avoid an IPR by assigning its challenged patents to an American Indian tribe that claims tribal sovereign immunity, an apparent insurance policy in case the Supreme Court upheld the constitutionality of IPR. In April, as widely-anticipated, the Supreme Court rejected the constitutional challenge to IPR in the *Oil States* case. However, Allergan’s insurance policy may never pay out – in late July, the Court of Appeals for the Federal Circuit rejected the applicability of tribal sovereign immunity to IPR. Thus, IPR is here to stay for the foreseeable future and the tribal sovereign immunity play looks to be on its last legs. There is, however, one crumb of comfort for critics of IPR – the Supreme Court’s *SAS Institute* decision, also in April, requires that the Patent Trial and Appeal Board (“PTAB”) decide the patentability of all patent claims challenged in an IPR once it is instituted. That decision overrules the prior PTAB practice of deciding the patentability of only the claims on which IPR was instituted – so called “partial institution”.

Constitutionality Challenge to IPR Denied in *Oil States*

In *Oil States*, the petitioner argued that IPR violates the U.S. Constitution by extinguishing private property rights, and that the validity of a patent can only be decided by an Article III court (e.g., a U.S. district court) before a jury. As noted in our prior post, the mere possibility (however unlikely it seemed) that IPR might be held unconstitutional had the patent bar paying close attention. After waiting with bated breath for several months, the patent bar received the Supreme Court’s answer in April – a 7-2 decision rejecting the constitutional challenge to IPR. *Oil States Energy Services, LLC v. Greene’s Energy Group, LLC*, 138 S. Ct. 1365 (2018). Justice Thomas (writing for the majority) stated that IPR falls within the “public rights” doctrine, which permits certain adjudications to be made other than by Article III courts. The Court rejected *Oil States*’ argument that patents are private property that cannot be revoked except by an Article III court. The Court stated that “[p]atents convey only a specific form of property right--a public franchise,” which confers only the rights that the Patent Act prescribes and is subject to other provisions of the Act, including IPR. The Court emphasized the narrowness of its holding explaining that its “decision should not be misconstrued as suggesting that patents are not property for

purposes of the Due Process Clause or the Takings Clause.”

Challenge to PTAB’s “Partial Institution” Practice Upheld in *SAS Institute*

In *SAS Institute*, the petitioner challenged the PTAB’s practice of only issuing a final decision on those patent claims as to which IPR was instituted, which often meant that only a subset of the originally challenged claims got decided. Patentees had long criticized the PTAB’s “partial institution” practice as subjecting patents to piecemeal litigation that the estoppel provisions of the Leahy-Smith America Invents Act (“AIA”) were designed to prevent. On the same day as its *Oil States* decision, the Supreme Court rejected the PTAB’s partial institution practice and held that the PTAB must issue a final written decision on all of the claims challenged in an IPR that is instituted. *SAS Institute Inc. v. Iancu*, 138 S. Ct. 1348 (2018). In a 5-4 decision, Justice Gorsuch (writing for the majority) stated that the Patent Act provides a “clear answer” that the “the [Board] shall issue a final written decision with respect to the patentability of any patent claim challenged by the petitioner....” *Id.* citing 35 U.S.C. § 318(a)(emphasis in original). The Court found this statutory language to be both “mandatory and comprehensive”, interpreting “shall” to mean “must” and “any” to mean “every”. The Court also found that the USPTO Director’s claimed “partial institution” power was nowhere to be found in the text of the statute. The Court rejected the USPTO’s argument that because the Director has to justify IPR based on a reasonable likelihood that the petitioner will prevail on “at least one” claim, the Director can institute review on less than all of the challenged claims. But this language, the Court found, suggests just the opposite: “Rather than contemplate claim-by-claim institution . . . the language anticipates a regime where a reasonable prospect of success on a single claim justifies review of all.” Finally, the Court rejected the USPTO’s policy argument that partial institution is more “efficient”, stating that “[p]olicy arguments are properly addressed to Congress, not this Court.”

Federal Circuit Denies Tribal Sovereign Immunity Claim in IPR

While *Oil States*’ constitutionality challenge was pending, and in an attempt to dismiss a pending IPR on tribal sovereign immunity grounds, Allergan assigned six patents on its highly-successful Restasis® dry-eye treatment to the Saint Regis Mohawk Tribe (“Saint Regis”), an American Indian tribe located in upstate New York. Under the deal, Saint Regis received a one-time payment of \$13.75 million and \$15 million in annual royalties for taking ownership of the patents and, in return, Allergan retained an exclusive license. In its motion to dismiss the IPR, Saint Regis argued that as a federally recognized, sovereign American Indian tribe, it has inherent sovereign immunity from an IPR, just as it does in a civil suit brought by a private party. The PTAB rejected Saint Regis’s motion to dismiss, a decision recently affirmed by the Court of Appeals for the Federal Circuit. In a unanimous opinion, the Federal Circuit held that tribal sovereign immunity is not implicated because IPR is “more like an agency enforcement action than a civil suit brought by a private party.” *Saint Regis Mohawk Tribe v. Mylan Pharmaceuticals, Inc.* (Fed. Cir. July 20, 2018). Among the factors that led the Federal Circuit to this conclusion were that the USPTO Director has broad discretion in deciding whether to institute review, and the authority to proceed in an IPR even if the petitioner drops out. The Federal Circuit was careful to point out that its decision denying *tribal* sovereign immunity in IPR does not mean

that *state* sovereign immunity is similarly inapplicable. Some have argued that the same result should hold had Allergan contracted with a state university instead of Saint Regis, and Judge Moore did note that state sovereign immunity has “many parallels” with tribal sovereign immunity, but ultimately the answer to that question was left for another day.

Conclusion

While IPR appears to be here to stay, albeit in modified form as a result of *SAS Institute*, there are some remaining challenges that might still be made. As the Supreme Court pointed out in *Oil States*, its decision does not preclude a constitutional challenge under the Due Process or Takings Clauses. This might, for example, pave the way for a challenge to an IPR conducted on a patent issued prior to enactment of the AIA. Also, we can expect Allergan to try to reverse the Federal Circuit’s holding in *Saint Regis* that tribal sovereign immunity is not implicated in IPR by moving for *en banc* rehearing at the Federal Circuit and/or filing a petition for cert. to the Supreme Court. In the meantime, patent owners may try assigning patents to state universities to set up a potential state sovereign immunity claim in any ensuing IPR, an approach not reached by the Federal Circuit in its *Saint Regis* decision.

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