

Winner's Playbook: Behind The Scenes Of The SAS Case

By **Gregory Castanias, David Cochran and John Marlott** (June 15, 2018, 5:11 PM EDT)

This article is part of an Expert Analysis series featuring reflections from attorneys who recently won high-profile cases — an inside look at the challenges they faced and the decisions they made that led to victory.

On April 24, 2018, in *SAS Institute Inc. v. Iancu*, a closely divided U.S. Supreme Court fundamentally changed the way that the Patent Trial and Appeal Board confronts inter partes reviews under the America Invents Act. The three Jones Day partners who represented software developer SAS Institute explain how they, and a dedicated client, took this seemingly ordinary PTAB case to the Supreme Court and changed the U.S. patent system.

David Cochran: In September 2012 — just before the inter partes review provisions went into effect — SAS was sued for patent infringement in Chicago by ComplementSoft LLC. SAS quickly found solid prior art, and, in March 2013, filed an IPR petition. When we filed the petition, IPRs were only 6 months old, so it wasn't clear whether the PTAB would be tough on patents or not — and we also didn't know that they would be engaged in the partial-institution practice that became the central dispute at the Supreme Court.

In August 2013, the PTAB instituted review, finding our prior art compelling. But it instituted review on only nine of the 16 claims we challenged. Most surprisingly, the PTAB determined we had met our burden of showing likely unpatentability of dependent claim 4, but not dependent claim 2, which was broader than claim 4 (it had one fewer limitation). That made no sense — claim 2 couldn't survive if claim 4 was unpatentable.

SAS was displeased with partial institution. In its view, the IPR should be a complete substitute for the validity part of a district court lawsuit, at least for prior-art patents and publications. In particular, SAS believed that partial institution violated 35 U.S.C. § 318(a), which requires a final written decision on "any patent claim challenged by the petitioner." SAS was vocal on these points — its in-house lawyers Tim Wilson and John Sieman published multiple articles in 2014 pointing out the error in the PTAB's ways.

We made these arguments to the board — you need to decide all the claims we challenged, and uninstituted claim 2 has to go, too, if claim 4 is ruled unpatentable. The board was unmoved by the notion that it had to decide all the claims we had challenged, but it tried to resolve the claim-2-versus-claim-4 inconsistency by concocting an awkward construction for claim 4 that neither party had advocated. SAS requested rehearing, but was denied.

John Marlott: While the IPR was pending in the PTAB, the patent owner desperately wanted the Chicago district court case to move forward. But from the very first in-court status conference in March 2013, we told Magistrate Judge Jeffrey T. Gilbert about the new AIA proceedings, that SAS intended to file one of these new IPR petitions, and that we would be asking him to stay the litigation pending the IPR outcome. The district court stayed the parallel litigation in May 2013.



Gregory Castanias



David Cochran



John Marlott

Then, after the PTAB instituted review on only nine of 16 challenged patent claims, the patent owner moved to lift the stay, arguing that since the PTAB would not be determining patentability of some of the patent claims, the litigation should proceed on those uninstituted claims. But Judge Gilbert declined to lift the stay.

Greg Castanias: As we moved from the PTAB to the Federal Circuit, there were essentially three sets of issues — ComplementSoft’s cross-appeal on two claim-construction issues (which we won), our appeal on claim 4 (which we also won), and our objection to the board’s refusal to adjudicate all of the claims we had challenged.

On that last point, we thought the statute’s command — the board “shall issue a final written decision with respect to any patent claim challenged by the petitioner” — was clear, and that the U.S. Patent and Trademark Office couldn’t avoid that “shall” requirement by relying on its regulation allowing partial institution.

Unfortunately, about a month after John argued the case (in January 2016), another Federal Circuit panel decided that issue against us in *Synopsys Inc. v. Mentor Graphics Corp.* The Synopsys majority thought the statute’s plain language compelled that outcome, but it alternatively held that even if the statute were ambiguous, the patent office was within its rights under the Chevron doctrine to allow partial final decisions. Judge Pauline Newman wrote what can only be characterized as a “vigorous dissent” in *Synopsys*, but there was no petition for rehearing or certiorari in that case.

Our panel followed *Synopsys* and held that the board was not required to decide all the claims we challenged. But Judge Newman was on our panel, too, and she issued a second “vigorous dissent” on the issue.

Marlott: SAS instructed us to file a petition for rehearing en banc. Some people thought we were crazy, because we were insisting that the board issue a final decision on challenges that the PTAB didn’t think were strong enough to institute review — and final decisions bar relitigating the same validity challenges in later district court litigation.

But SAS was adamant that once the PTAB elects to institute IPR, the statute requires a final written decision on any patent claim challenged by the petitioner — otherwise, the IPR is not a truly meaningful alternative to district court validity litigation, and the issues of statutory estoppel and litigation stays become really muddled. Even if the procedural posture of this particular IPR might have been viewed as unfavorable to SAS in this particular case, SAS felt strongly that it was important to the long-term functioning of the AIA and the PTAB to get this right.

Castanias: I got more involved with the writing of the en banc petition. We made basically three arguments urging the full Federal Circuit to rehear the case — (1) the statute is clear and requires a decision on all claims we challenged; (2) Chevron doesn’t help the board, because the statute is clear and because the board’s approach rewrites the statute in a way that takes it far afield from the regime that Congress created; and (3) legislative history and policy counsel against partial decisions. We also pointed out that ours was an ideal case for en banc review — it presented a pure question of law; we’d been raising the issue throughout the PTAB litigation; and if the court didn’t take up this issue now, it would be locked in, permanently, as Federal Circuit law.

We got our hopes up when the court asked for a response from the patent office and from ComplementSoft. We got our hopes up more with each day that passed — usually, where there’s no interest in taking up a case en banc, it takes the Federal Circuit only a few weeks to deny a petition for rehearing. But this one stretched out — we filed our petition in July 2016, and we heard nothing from the court until Nov. 7, 2016.

Unfortunately, that Nov. 7, 2016, order was an order denying rehearing en banc, with only one of the court’s 12 active judges dissenting — Judge Newman. Again. With yet a third “vigorous dissent.”

Cochran: At this point you might think our client would surrender. Why would the Supreme Court take on what most viewed as a procedural device for the PTAB to manage its caseload — partial institution — and in particular after its *Cuozzo* decision, which largely insulated the PTAB’s institution determinations from appellate review?

Castanias: After rehearing was denied, Tim Wilson at SAS started to press us on a strategy for Supreme Court review. The Supreme Court grants certiorari in fewer than 1 percent of the cases it is asked to hear. To obtain certiorari, you have to show that the case presents an important issue, that the time to decide that issue is now, and that your case is a “good vehicle” (in Supreme Court parlance) for deciding that issue — that is, there aren’t issues like waiver or antecedent issues that the court would have to decide before getting to the “important” question. The most common way of showing “importance” is by demonstrating a “circuit split” — different courts have decided the important issue of federal law differently, so that the Supreme Court has to step in and make national law uniform.

That doesn’t fit so well with the Federal Circuit, which has all of these pockets of exclusive federal appellate jurisdiction, like patent cases, which means that no other appellate court will consider those issues, let alone “split” with the Federal Circuit. Here, no other appellate court was ever going to be asked to interpret Section 318(a).

To be sure, the Supreme Court has been taking more patent cases in recent years. But the court had just decided *Cuozzo*, so it seemed that the court might view us as just asking it to micromanage the way that the board did its business, which doesn’t sound very important.

So I thought, “What if this isn’t really a case about managing the way the board does its work? What if this isn’t really a patent case at all, but instead was a foundational, ‘Schoolhouse Rock’ kind of case, about what the different branches of government can and cannot do vis-à-vis each other?” Two things had happened that summer that caused me to think about SAS’ case in those terms.

One was a Tenth Circuit immigration decision, *Gutierrez-Brizuela v. Lynch*, issued on Aug. 23, 2016. This case got a bit of attention among the appellate bar, because Tenth Circuit Judge Neil Gorsuch had written the court’s opinion and written an opinion concurring in his own opinion, which called Chevron deference into question: “[T]he fact is Chevron ... permit[s] executive bureaucracies to swallow huge amounts of core judicial and legislative power and concentrate federal power in a way that seems more than a little difficult to square with the Constitution of the framers’ design. Maybe the time has come to face the behemoth.” And so I thought, “Gee, isn’t that SAS’ case? The patent office changing, by regulation, the way that Congress designed inter partes review?”

The other thing that had happened is that the president-elect had, during the campaign, issued a list of potential Supreme Court nominees from which he promised, if elected, to select Justice Antonin Scalia’s replacement. The second wave of names on his list included Judge Gorsuch. So we thought, “Well, even if Gorsuch isn’t the nominee, it’s probably going to be someone who thinks like him, so maybe this is the way to get our case to stand out.”

So our petition reoriented the issue as not just important for the patent system, but presenting fundamental issues about the relationship between administrative agencies and Congress. Our “question presented” juxtaposed the statute’s language and the court’s holding:

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?

That allowed us to make a straightforward case that the statutory language favored us — “shall” means it’s mandatory; and “any patent claim challenged by the petitioner” meant all claims challenged by the petitioner, not a subset chosen by the board.

But, because the Federal Circuit in *Synopsys* had also grounded its decision on the alternative ground that the board’s interpretation was reasonable under Chevron, this allowed us to bring in Judge Gorsuch’s (and Justice Clarence Thomas’) critiques of the Chevron doctrine. We noted that the board’s rewriting of the statute “raises serious separation-of-powers concerns,” and that, “[w]hatever the wisdom of Chevron, it cannot be allowed such free rein as to allow the agency tasked with implementing the statute ... to rewrite the law’s procedures to serve its interests in convenience.”

We filed our petition on Jan. 31, 2017. After ensuring that the petition was being filed, I headed home, and turned on the television just in time to see Judge Neil Gorsuch announced as the nominee to the Supreme Court. Surely this was at least some kind of omen that our master plan was taking shape.

Marlott: Just before filing, I had found that the U.S. Department of Justice had been a petitioner challenging a patent in an inter partes review case (Department of Justice v. Discovery Patents LLC), and, like SAS, had objected to the board's partial-decision practice in words we could not have chosen any better for our own case: "[B]y picking and choosing some but not all of the challenged claims in its Decision, the Board has undermined the Congressional efficiency goal and increased the workload of both parties who are now forced to litigate validity between two forums." So I quickly got that to Greg and we added it to the petition (and Justice Gorsuch mentioned it in the court's opinion).

Castanias: The government's opposition tried to walk back its prior statement about "undermining efficiency" and "increasing workload" in its brief in opposition, contending that it "did not reflect the considered view of the United States." Beyond that uncomfortable disavowal, the government didn't dispute that the issue was important. In fact, the government made an argument that it hadn't made in either Synopsys or our case — that we were really seeking review of an institution decision, and so Cuozzo and Section 314 barred appellate review.

This gave us a little more freedom in our reply, where we archly reframed the issue: "The question presented is nothing less than this: Who makes the laws in this country — the national legislature or an executive agency?"

Cochran: Our clients at SAS knew that our case had been "conferenced" for the justices' May 11 conference. But when the case didn't appear on the orders list the following Monday as either a grant or a denial, they were perplexed.

Castanias: I explained that the justices often relist cases that they are considering granting certiorari to, perhaps to give the case one more week's study to make sure there are no "vehicle" problems with it. And, while I was cautious in advising them that this was no sure thing, I was able to tell them that, based on past experiences, about 65 percent of relisted cases got granted in some form.

Sure enough, the next Monday, May 22, brought the grant of certiorari. Three weeks later, the court granted Oil States, which challenged the constitutional validity of inter partes review. We briefed SAS' case during summer 2017, which got set for argument back-to-back with Oil States for the Monday after Thanksgiving 2017.

Oil States went first, so Dave, John and I got to cool our heels at the back tables while watching that argument.

Marlott: It was "patent day" at the Supreme Court — and it was a thrill to be a part of it. The courtroom was packed with patent office officials, PTAB judges and lawyers from across the country. During the Oil States argument, we listened for any clues about what the justices might be thinking about our case. If the court was going to rule that inter partes reviews were outright unconstitutional, our challenge might become moot. But my gut feeling from the Oil States argument was that IPRs were going to survive, although perhaps not unanimously.

When Greg got up to argue our case, it was surreal to hear the justices so laser-focused on the issues we had been living with for years, and asking the kinds of questions that we had been anticipating for months.

Cochran: Like John said, it was definitely a patent-law extravaganza at the Supreme Court that day, with so much riding on the decisions. Most commentators viewed Oil States as the main event — although we knew our case could turn out to be the more historic one because of its impact on agency power. I was also impressed by the focused questioning from the justices — they clearly knew their stuff — and also by the conversational flow of the argument. It was amazing that we had gotten all this way, and there were the Supreme Court justices going back and forth about the meaning of 318(a).

Castanias: I don't remember much independently about the argument — you're "in the moment" when you're standing at the podium — but I read later on Twitter some speculation that our case had to have set some kind of record having the first 44 questions or so all come from the three female justices. Anyway, we thought we had made our points, and we were heartened when Justice Anthony Kennedy, after asking my opponent a hypothetical question and getting his answer, said, "But then we can rule against you, and there's no real problem." We felt like we had to get Justice Kennedy in order to get to five votes, so that gave us some hope that we were in the game.

On April 24, 2018, the court, in an opinion by Justice Gorsuch, ruled that SAS' reading of the statute had been right all along.

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