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## Intellectual Property Litigation Group Alert: Supreme Court to Decide If USPTO's *Inter Partes* Review Violates Constitution

The constitutionality of AIA patent *inter partes* review (IPR) proceedings will be examined by the Supreme Court. On June 12, 2017, the Supreme Court granted certiorari in *Oil States Energy Services v. Greene's Energy Group*, Case 16-712, to address the constitutionality of having an Article I tribunal extinguish issued patent rights. A judgment that IPR proceedings are unconstitutional would have significant ramifications for U.S. patent law, potentially removing or limiting a widely used vehicle for challenging and invalidating patents before the USPTO.

### BACKGROUND TO PETITION FOR CERTIORARI

In 2012, the patentee, Oil States, initiated the underlying infringement suit against Greene's Energy in the Eastern District of Texas. In response, the alleged infringer, Greene's Energy, petitioned the USPTO to institute an IPR. After being instituted, the district court action was stayed pending final resolution of the IPR.

In the IPR proceeding, Greene's Energy argued that the patent at issue, U.S. Patent Number 6,179,053 ("the '053 patent"), was anticipated. In May 2015, the Patent Trademark and Appeal Board (PTAB) concluded that the '053 patent was anticipated and rejected the patentee's motion to amend the claims.

In May 2016, the Federal Circuit summarily affirmed the PTAB's invalidation of the asserted patent claims and its rejection of the patent owner's motion to amend the claims.

## OIL STATES' PETITION FOR CERTIORARI

Oil States petitioned the Supreme Court for certiorari on, among others things, whether IPR proceedings are constitutional.<sup>1</sup> Specifically, Oil States questioned: “whether *inter partes* review – an adversarial process used by the Patent and Trademark Office (PTO) to analyze the validity of existing patents – violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury.” IPR proceedings were authorized by Congress in 2011’s America Invents Act, allowing the USPTO’s PTAB to review existing patents and extinguish those rights in an adversarial process. Oil States argued that the Seventh Amendment provides patent owners with a right to a jury in invalidation proceedings. Oil States further argued that suits to invalidate a patent must be tried in an Article III forum. According to Oil States, it was inappropriate for Congress to grant the power to invalidate a patent to an administrative agency, a non-Article III forum. Citing Supreme Court precedent, Oil States contended that patents create property rights, protected by the Constitution, and therefore may not be revoked or canceled by any officer of the government. *McCormick Harvesting Mach. Co. v. C. Aultman & Co.*, 169 U.S. 606, 608-09 (1898).

## SUPREME COURT PRECEDENT (*STERN* AND *MCCORMICK*)

Oil States contends that Supreme Court precedent confirms that patent owners have a right to an Article III forum for invalidation proceedings and that the Court has “long recognized that, in general, Congress may not ‘withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common law, or in equity, or admiralty.’” *Stern v. Marshall*, 564 U.S. 462, 484 (2011). According to Oil States, IPR proceedings conflict with this mandate.

In addition, Oil States noted that the Supreme Court long held that once a patent is granted it “is not subject to be revoked or canceled by the president, or any other officer of the Government” because “[i]t has become the property of the patentee, and as such is entitled to the same legal protection as other property.” *McCormick*, 169 U.S. at 608-09. Oil States points to the holding in *McCormick* that “[t]he only authority competent to set a patent aside, or to annul it, or to correct it for any reason

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<sup>1</sup> Oil States presented two additional questions in its petition for which the petition for certiorari was not granted: (1) whether the IPR amendment process conflicts with Supreme Court precedent and congressional direction, and (2) whether the “broadest reasonable interpretation” used to construe claim language in IPR cases requires the application of traditional claim construction principles.

whatever, is vested in the courts of the United States, and not in the department which issued the patent.”<sup>2</sup> *McCormick*, 169 U.S. at 609.

Further, Oil States argued that patents – having been recognized for centuries as a private property right – do not fall into the category of cases involving “public rights” that Congress could constitutionally assign to legislative courts for resolution. To allow the PTAB the power to enter final binding judgment on a cause of action (patent invalidation) that stems from the common law and predates the agency by centuries conflicts with the Supreme Court’s mandate that “Congress may not ‘withdraw from judicial cognizance any matter which, from its nature, is the subject of a suit at the common law, or in equity.’” Pet. for Writ of Certiorari at 18-19, *Oil States v. Greene’s Energy* (U.S. June 12, 2017) (No. 16-712) (citing *Stern*, 564 U.S. at 484).

#### RESPONSE BY GREENE’S ENERGY AND USPTO

Greene’s Energy argues that IPR proceedings did not violate the Seventh Amendment or Article III. Greene’s Energy posited that the Seventh Amendment guarantees the right to a jury trial only to those claims that are adjudicated in Article III courts, and that if Congress has permissibly assigned “the adjudication of a statutory cause of action to a non-Article III tribunal, then the Seventh Amendment poses no independent bar to the adjudication of that action by a nonjury factfinder.” While recognizing that Article III prevents Congress from withdrawing from Article III courts any matter involving the exercise of judicial power, Greene’s Energy contended that one exception to this general rule is that Congress may designate “public rights” for adjudication in non-Article III tribunals. According to Greene’s Energy, patents are a quintessential “public right”; consequently, IPR proceedings do not violate Article III. “[W]hat makes a right ‘public’ rather than private is that the right is integrally related to particular federal government action.” Op. Pet. for Writ of Certiorari at 7, *Oil States v. Greene’s Energy* (U.S. June 12, 2017) (No. 16-712) (citing *Stern*, 564 U.S. at 490-91). “Where Congress has acted ‘for a valid legislative purpose pursuant to its constitutional powers under Article I,’ it may delegate even a ‘seemingly private right’ to non-Article III courts if the right ‘is so closely integrated into a public regulatory scheme as to be a matter appropriate for agency resolution.’” *Id.* (citing *Granfinanciera, S.A. v. Nordberg*, 492 U.S. 33, 54 (1989)). Greene’s Energy asserted that Congress created the USPTO with special expertise in evaluating patents and directed the USPTO to issue a patent under standards set by federal law. Accordingly, Greene’s Energy argued, IPR

<sup>2</sup> Oil States asserts that *Stern* effectively overruled 1985 Federal Circuit precedent holding that *McCormick* did not foreclose the Commissioner from canceling a patent under a change made to the patent statute in 1980. In addition, Oil States argues that IPR proceedings – being adjudicatory in nature and instigated by an adverse party seeking to invoke an affirmative defense against a patent infringement claim – are qualitatively different than reexamination proceedings.

procedure is the sort of mechanism that Congress may permissibly create to administer a public-right scheme.

The Government, in its brief, likewise pointed out that the Supreme Court has recognized qualifications authorizing Congress to designate public rights for adjudication in non-Article III tribunals. Given that patents are a public right (*i.e.*, a “right is integrally related to particular Federal Government action”), the USPTO’s invalidation of a patent that should never have been granted in the first place was not unconstitutional. The Government further argued that the *McCormick* decision was not based on Article III; rather, it held only that the Patent Act in its then-current form provided no basis for canceling an original patent based on the rejection of a later reissue application. The Supreme Court granted certiorari despite the Government’s and Greene’s Energy’s arguments.

#### IMPLICATIONS

A determination that post-grant proceedings at the USPTO, including IPR proceedings, are unconstitutional would have the far-reaching impact of potentially removing an extensively used tool for challenging the validity of patents. Eliminating IPR proceedings would most probably impact the ease and cost associated with challenging the validity of patents. Adversarial proceedings currently addressed through IPR may need to be resolved in district court litigation.

Given the timing of grant of certiorari, the case will likely be argued during the winter term with a decision likely next summer.

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