

Fed. Circ. Decision Addresses Key Oil States Argument

By **Ben Koopferstock**

Law360, New York (August 30, 2017, 5:31 PM EDT) -- In its [U.S. Supreme Court](#) brief filed Aug. 24, 2017, petitioner [Oil States Energy Services](#) argues that the inter partes review procedure created in 2012 by the America Invents Act is unconstitutional because Congress cannot delegate the power to invalidate granted patents to the [U.S. Patent and Trademark Office](#). One hurdle that Oil States faces is the fact that the PTO has been invalidating patents for over 30 years through ex parte re-examination, and more recently through inter partes re-examination. The patent at issue in Oil States was invalidated through inter partes review, so Oil States only needs the court to find that IPR is unconstitutional — not these other re-examination proceedings. Because re-examination proceedings have been in force for a longer period of time, the court might hesitate to rule in such a way that renders these proceedings unconstitutional.



Ben Koopferstock

The Federal Circuit had previously reviewed the constitutionality of ex parte re-examination in *Patlex Corp.*, stating that “[a] defectively examined and therefore erroneously granted patent must yield to the reasonable Congressional purpose of facilitating the correction of governmental mistakes.”[1] The Federal Circuit reviewed a similar challenge to the constitutionality of IPR in *MCM Portfolio LLC v. Hewlett-Packard Co.*, concluding that “assigning review of patent validity to the PTO is consistent with Article III.”[2] In *MCM Portfolio*, the Federal Circuit stated that “patent rights are public rights” whose validity is “susceptible to review by an administrative agency.”

In its opening brief, Oil States attempts to differentiate between IPR and re-examination proceedings, arguing that “unlike traditional ex parte reexamination—which is an interactive proceeding between the agency and the patent owner—[IPR] is an adversarial proceeding with all the trappings of litigation” and that inter partes re-examination was “designed to resemble traditional claim amendment-and-response patent prosecution and [was] not adversarial.” Like a district court trial, IPR is an adversarial proceeding that includes discovery, a hearing in which both parties argue, and a final judgment, which can only be appealed to the Federal Circuit. Oil States also notes that “[m]any of the procedural rules that govern the (IPR) proceedings are often based expressly on the Federal Rules of Civil Procedure” and that even the Patent Trial and Appeal Board (PTAB) “refers to that proceeding (IPR) as a ‘trial.’”

The Supreme Court will likely need to decide whether patent rights are a public right or a private right. If a patent is a public right, then Congress has the authority to delegate controversies to a non-Article III tribunal such as the PTAB. If the court finds that patent rights are public rights, then IPR is likely to survive. In its brief, Oil States takes the position that patent rights are private rights, but that ex parte re-examination proceedings do not require Article III power because the proceedings are not adversarial. Oil States argues that Congress can give the PTO power to invalidate or alter patent rights through certain mechanisms, such as ex parte re-examination.

But, because IPR is too similar to a district court trial, Oil States argues, IPR is unconstitutional under Article III.

Four days after Oil States filed its brief, the Federal Circuit decided *Ultratec Inc. v. CaptionCall LLC*, in which the court noted the differences between IPR and a district court trial.[3] In a footnote, the court stated that, although “[t]he PTO at times refers to the IPR proceedings as a ‘trial’ ... [v]ery seldom do IPR proceedings have the hallmarks of what is typically thought of as a trial,” noting that in this instance “the IPR proceeding itself was limited to a brief argument by the lawyers for each side, and there was no live testimony by any witness.” The PTO commonly refers to IPR as “a trial proceeding.”[4]

In the *Ultratec* opinion footnote, the court appears to be commenting on Oil States’ attempt to draw a line between IPR and re-examination. The footnote in *Ultratec* is not relevant to the holding in that opinion, which relates to whether trial testimony of an expert should be considered by the PTAB during an IPR. Rather, the footnote further establishes the Federal Circuit’s position that Congress can authorize the PTO to invalidate patents for obviousness or anticipation, thereby correcting mistakes the PTO made during prosecution.

The Federal Circuit’s effective grouping of IPR and re-examination could backfire. Even if the Supreme Court does find that IPR is more analogous to re-examination than litigation, as the court appears to be encouraging in *Ultratec*, the Supreme Court could still decide that Congress is unable to delegate the power to invalidate patents to the PTO. The court could find that, once granted, a patent confers a private right that can only be invalidated by an Article III tribunal, unless the patent owner consents to an alternative forum. If patents are private rights, then an Article III court may be required to conduct any proceedings over that right. Oil States wisely provided the Supreme Court with an avenue to save re-examination while finding IPR unconstitutional, but their attempt to differentiate IPR and re-examination may not succeed.

The court could also find that the issue of extinguishing patent rights, regardless of whether they are public or private, must be decided by a jury trial. Under the Seventh Amendment, cases that were traditionally decided by juries in the late 18th century must still be tried to a jury today. Oil States and several amici have argued that patent invalidity was traditionally tried to a jury in 18th century England and that the Seventh Amendment requires a jury trial to invalidate a patent. *Greene’s Energy*, the respondent in this case, argued that regardless of whether patent cases were traditionally tried to a jury, the Seventh Amendment right to a jury trial is triggered “only where Article III compels Congress to assign adjudication of particular claims to federal courts, or where Congress chooses to do so.” *Greene’s Energy* reasoned that if review by an Article III court is not required, then the Seventh Amendment requirement for a jury trial is moot.

A decision reserving the power to invalidate patents with Article III courts and a jury would certainly spell the end of IPR, and likely also end re-examinations initiated without the patent owner’s consent. Even if the court accepts Oil States’ reasoning and preserves *ex parte* re-examination while declaring IPR unconstitutional, the end result would still be detrimental for accused infringers. With more than 6,500 IPR petitions filed since 2012, a decision holding IPR unconstitutional would have huge implications for the enforceability of patents.

[Ben Koopferstock](#) is an associate in the Washington, D.C., office of [Banner & Witcoff Ltd.](#)

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[1] *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 604 (Fed. Cir. 1985).

[2] *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284, 1291 (Fed. Cir. 2015).

[3] *Ultratec, Inc. v. Captioncall, LLC*, 2017 WL 3687453, *1 n.2 (Fed. Cir. Aug. 28, 2017).

[4] See, e.g., *Inter Partes Review*, <https://www.uspto.gov/patents-application-process/appealing-patent-decisions/trials/inter-partes-review>.

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