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Patents – Equal to Franchises and Toll Bridges? Seven Justices Seem to Say Yes in *Inter Partes* *Review* Decision

By the Banner & Witcoff PTAB Group

July 10, 2018 – *Inter partes* reviews (IPRs) at the Patent Trial and Appeal Board (PTAB) are constitutional, as decided by seven Supreme Court Justices in the case *Oil States*.ⁱ IPRs permit the PTAB to cancel already-issued patent claims (in limited circumstances).

But the majority *Oil States* opinion also said something else, about what patents are. *Oil States* said that patents are “public franchises.” Warming quickly to this statement, the Court continued into the law of franchises, comparing a patent to a franchise “that permits a company to erect a toll bridge,” and to franchises “that permit companies to build railroads or telegraph lines.” It was franchise law that permitted the Court to rapidly conclude that patents could be canceled in IPR, since all franchises, it said, could be canceled.

The Court comparison of patents to toll bridges is discomfoting, as it seems dismissive of patents. Toll bridges must rise from concepts, development, engineering, and hard work, just as most patents must so rise. That much is true. But apart from that, the comparison of patents, franchises, and toll bridges warrants further exploration.

Is the Court saying that all or most patent owners are trolls in its eyes? The Supreme Court knows patent trolls, as they were referenced in dissent in one of their cases.ⁱⁱ They are aware of the “kill” rate in IPRs, as that came up in *Cuozzo*ⁱⁱⁱ and *Oil States*. Trolls and bridges together, and specifically trolls living under bridges and confronting those who try to cross the bridges, to get

something from them, are known as far back as Norwegian fairy tales.^{iv} The Supreme Court referenced toll bridges, where those who want to cross must pay. It can hardly be said that the Supreme Court has been consistently patent-friendly, because it has sometimes been dismissive of patents.^v If the reference to toll bridges is a backhanded insult or intentional slight, it is inappropriate and wrong. The patent of the inventors who discovered how to fly and through their patents taught the world how to join them hardly turned them, the Wright Brothers, into ogres or trolls.^{vi} The same could be said of the patents of many other great inventors.

Two *Oil States* dissenters, Justices Gorsuch and Chief Justice Roberts, were not appreciative of the labeling of patents along with toll bridges as franchises. Labels should be aside, they asserted, because “by the time of the founding [of the nation] the law treated patents protected by the Patent Clause quite differently from ordinary public franchises.”^{vii} Flying the flag for patents, Justice Gorsuch wrote that from the time of the Constitution, they were favored, not denigrated:

Many public franchises amounted to little more than favors resembling the original royal patents the framers expressly refused to protect in the Patent Clause. The Court points to a good example: the state-granted exclusive right to operate a toll bridge. By the founding, courts in this country (as in England) had come to view anticompetitive monopolies like that with disfavor, narrowly construing the rights they conferred. By contrast, courts routinely applied to invention patents protected by the Patent Clause the “liberal common sense construction” that applies to other instruments creating private property rights, like land deeds. As Justice Story explained, invention patents protected by the Patent Clause were “not to be treated as mere monopolies odious in the eyes of the law, and therefore not to be favored.” For precisely these reasons and as we’ve seen, the law traditionally treated patents issued under the Patent Clause very differently than monopoly franchises when it came to governmental invasions.

Oil States dissent (citations omitted).

A patent case cited by the *Oil States* majority to categorize patents with franchises is actually ambiguous and, regardless, consistent with the dissent’s position that patents are not ordinary franchises. *Seymour v. Osborne* stated patents were property and “as such are as much entitled to protection as any other property, consisting of a franchise, during the term for which the franchise or the exclusive right is granted.”^{viii} So *Seymour* seems to analogize patents to ordinary franchises, rather than classify patents as franchises. And the case continues, “Letters patent are not to be regarded as ... created ... at the expense and to the prejudice of all the community ... but as public franchises ... tending to promote the progress of science and the useful arts as a matter of compensation ... for ... public benefit ...”^{ix} In these words, if patents are franchises, they are extraordinary, favored franchises, and treated well.

Interesting as well, the toll bridge case the Court majority cites for the proposition that franchises can be canceled did not actually cancel a franchise, or resolve that issue. Nor did it consider what could happen to bridge franchises at any time, such as when construction was underway or the bridge was newer, and no return on investment, or an inadequate return, had occurred. In *Louisville Bridge Co. v. United States*, the issue was whether a bridge that needed rebuilding could be rebuilt without meeting new requirements for better navigation.^x The bridge owner claimed a permanent franchise for the bridge to remain as-is, but there was not an issue that the bridge was being canceled, *i.e.*, torn down.^{xi} The *Louisville Bridge* court decided only that the government could require changes to the bridge.^{xii} The government wanted changes for better navigation of a river underneath. By every appearance, the bridge is still in place today, as modified from the time of the case.^{xiii} The *ratio decidendi* of the case was that to require changes to a bridge over navigable waters, Congress did not need to expressly reserve the right to require changes in the original approval of the bridge. The Court noted the large investment of private capital in a bridge as a “grave consideration,” but reasoned that since many years had passed since the approval of the bridge, the investors had gained profits from the use of the bridge in the meantime, what they had expected from the beginning.^{xiv}

Cold comfort can be taken by patent owners from all of this. Seven Justices seemed to say that patents were no better than franchises for toll bridges. The observer is left to wonder if the Court views patents as the possessions of trolls. The very cases the Court cited provided reasons why patents were not ordinary franchises, but extraordinary, favored, and to be treated better than ordinary franchises. Likewise, the majority cited poor authority for its decision that patents could be canceled, instead of the patents continuing to exist, possible change to them. All of this seems to show lack of appreciation for patents. In IPR and all patent matters, is your patent only the equal of a franchise, such as to build and operate a toll bridge? The discomfiting answer is that seven Justices say yes.

For more information on this PTAB Highlights alert, please contact its specific author Charles Shifley, or any of the many lawyers at Banner & Witcoff.

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ⁱ *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, No. 16-712 (April 24, 2018). See https://scholar.google.com/scholar_case?case=18307080123131598143&q=oil+states+energy+services+llc&hl=en&as_sdt=4,60

ⁱⁱ *Commil USA, LLC v. Cisco Systems, Inc.*, 135 S.Ct. 1920, 1932 (2015). “Trolls,” of course, are those who attempt to enforce patent rights beyond actual value or scope. *E.g.*, https://en.wikipedia.org/wiki/Patent_troll

ⁱⁱⁱ *Cuozzo Speed Techs., LLC v. Lee*, 136 S.Ct. 2131, 2145 (2016)(commenting on motions to amend: “numbers may reflect the fact that no amendment could save the inventions at issue, *i.e.*, that the patent should never have issued”).

^{iv} <https://en.wikipedia.org/wiki/Troll>

^v *E.g.*, *Sakraida v. Ag Pro, Inc.*, 425 U.S. 273 (1976)(patent invalidated due in part to classic mythology, see 275).

^{vi} C. Shifley, *The Wright Brothers: Would Their Patent Survive Today's Patent Law Rigors?* *Doubtful*, 100 *Journal of the Pat. Off. Soc.* 12 (2018).

^{vii} *Oil States* dissent at 11

^{viii} 78 U.S. 516, 533 (1870).

^{ix} *Id.*

^x 242 U.S. 409, 415-16 (1917).

^{xi} *Id.* at 416.

^{xii} *Id.* at 421.

^{xiii} [https://en.wikipedia.org/wiki/Fourteenth_Street_Bridge_\(Ohio_River\)](https://en.wikipedia.org/wiki/Fourteenth_Street_Bridge_(Ohio_River))

^{xiv} *Id.* at 420.