IP Alert: Supreme Court Considers Constitutionality of Inter Partes Review in Oil States

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By Benjamin Koopferstock

On November 27, 2017, the Supreme Court heard argument in Oil States Energy Services, LLC v. Greene's Energy Group, LLC[1], to answer whether inter partes review (IPR) violates the Constitution by "extinguishing private property rights through a non-Article III forum without a jury."[2] The case stems from an IPR proceeding in front of the Patent Trial and Appeal Board (PTAB). Greene's Energy Group filed the IPR petition to invalidate certain claims of U.S. Patent No. 6,179,053, which is owned by Oil States. In the IPR proceeding, the PTAB found that all of the claims at issue were unpatentable.

Oil States appealed to the Court of Appeals for the Federal Circuit, which affirmed the decision of the PTAB in a Rule 36 decision providing no written opinion. The Supreme Court then granted certiorari, limited to the question above. As discussed below, the oral argument shows a split among the Court on the issue.

Patent Trials at the USPTO

Congress created IPR proceedings, with the passage of the America Invents Act (AIA), to allow third parties to challenge the validity of issued patents at the U.S. Patent and Trademark Office (USPTO) based on prior art patents and printed publications. IPR proceedings are generally considered "a quicker and cheaper substitute for litigation."[3] Frequently, district courts grant accused infringers' motions to stay litigation pending IPR proceedings. Over the past few years, the PTAB has invalidated a large percentage of

claims that have been reviewed, and in turn, IPR has become a very popular avenue for accused infringers. Prior to the creation of IPR, the USPTO examined the validity of issued patents for more than 30 years through ex parte reexamination, and more recently through inter partes reexamination.

At the Supreme Court, counsel for Oil States argued that IPR proceedings were different from ex parte reexamination and inter partes reexamination proceedings because those reexamination proceedings were "fundamentally examinational and not adjudicational in nature" and therefore were "perfectly consistent with Article III." During the oral arguments, the justices questioned the difference between IPR and reexamination proceedings and seemed hesitant to adopt Oil States' position that these proceedings should be treated differently under Article III. Justice Kagan noted that Oil States had not provided a workable test for differentiating between proceedings that would be permissible and those that would not, asking "[s]o what's the line? . . . what are the procedures that are here that you think make this essentially adjudicatory that are not in those other proceedings?"

Federal Circuit Opinion

Although the Federal Circuit issued a Rule 36 decision in Oil States, the Court had previously reviewed the constitutionality of IPR in MCM Portfolio LLC v. Hewlett-Packard Co.**[4]** In MCM, the Federal Circuit concluded that "assigning review of patent validity to the PTO is consistent with Article III," stating that "patent rights are public rights" whose validity is "susceptible to review by an administrative agency."[5]

Are Patents a Public Right or a Private Right?

As noted by the Federal Circuit in MCM, one central question is whether patent rights are a public right or a private right. Under Article III of the Constitution, Congress cannot "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." [6] In practice what this means is that only an Article III court can decide cases that were traditionally subject to common law at courts in England in 1789.[7] One exception to this rule that the Supreme Court has recognized is that cases concerned with so-called "public rights" can be assigned to administrative agencies for resolution.[8]

In reaching its decision in Oil States, 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, under current precedent 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 almost certain to survive. Greene's Energy argued that "patent rights emanate solely from federal statute" and "are therefore public rights."[9] Justices Ginsburg, Kagan, Sotomayor, and Breyer all appeared inclined to agree with Greene's. But Justice Breyer did seemed concerned with the idea that patent owners could rely on the existence of a patent for years, invest heavily in reliance on that patent, and then have that patent invalidated, asking "[i]s there something in the Constitution that protects a person after a long period of time and much reliance from a reexamination at a time where much of the evidence will have disappeared?"

Further weighing in favor of constitutionality, Justice Kennedy also appeared to doubt that Congress had the authority to create the right to a patent, limit the term of the patent, but not revisit whether a patent should have issued in the first place, asking "doesn't that show

that the patent owner has limited expectations as to the scope and the validity of the property right that he holds?"

Oil States argued that patent rights are private rights, and that because IPR is too similar to a district court trial, IPR is unconstitutional under Article III.[10] During argument, Justice Gorsuch appeared to favor the idea that patent rights were a private right, asking counsel for Oil States, "why not just say anytime a private right is taken by anyone, it has to be through an Article III forum?"

Further increasing the intensity of the private versus public right debate, Justice Roberts questioned whether the established factors set out in a prior Supreme Court decision[11] for determining if property rights are public or private should be revisited, asking "if that is a sufficiently stable and predictive test when you're talking about something like a property right?"

Actions in Light of Upcoming Decision

Parties in patent disputes have some options in light of the upcoming decision, which is expected in the next few months. If the Supreme Court were to find that IPR is an unconstitutional delegation of power, it is not clear what would happen to patents that were already declared invalid by the PTAB. Patentees who have patents invalidated by the PTAB should try to avoid final judgments by district courts, so that they might still have the opportunity to assert their patents if the Supreme Court reverses in Oil States. Efforts to accomplish this have had, thus far, little success.

In SurfCast Inc. v. Microsoft Corp., the asserted patent was found invalid by the PTAB, and SurfCast requested to have the case dismissed without prejudice, so that they might assert the patent again if IPR were deemed unconstitutional.[12] The Court denied the request, stating that "[b]ecause the Federal Circuit issued a final judgment settling the precise issue at issue in this case between these same parties, I will accord the judgment preclusive effect and dismiss SurfCast's claims with prejudice."[13]

I n Leak Surveys, Inc. v. FLIR Systems, Inc., all asserted claims were invalidated by the PTAB.[14] Facing dismissal, the plaintiff requested a stay until the Supreme Court renders a decision in Oil States.[15] The district court denied the request, noting that "[e]ven if the Supreme Court holds that IPRs are unconstitutional, it may choose not to apply the new rule retroactively" and that "[e]ven if the Supreme Court applies the new rule retroactively, it would seemingly only apply to cases still pending on direct review of the PTAB decision."[16]

Some patentees have also attempted to avoid IPR by transferring their patents to Native American tribes, which might not be subject to IPR under sovereign immunity.[17] Although it is not yet clear whether this scheme will effectively render the patents immune to IPR, this issue has slowed down the IPR proceedings, and may ensure that these proceedings or appeals from these proceedings are still live when Oil States is decided.

Some had hoped that oral argument would provide a good indicator of how the Court will rule in this case, but the justices seemed split and the outcome is far from clear. Joseph Matal, director of the USPTO, had predicted that the Court would issue "a 9-0 decision in the agency's favor," which following arguments seems unlikely.[18] The opinion in Oil States will provide a final answer as to whether Congress can authorize the USPTO to review the validity of issued patents, a question that was first brought to the Federal Circuit in 1985.[19]

Click here to read a transcript of the arguments in Oil States Energy Services, LLC v. Greene's Energy Group, LLC.

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[1] Oil States Energy Servs., LLC, No. 16-712 (U.S. argued November 27, 2017).

[2] Petition for a Writ of Certiorari at 2, Oil States Energy Servs., LLC, No. 15-446 (U.S. Feb. 22, 2016).

[3] Brief for the Petitioner at 17, Cuozzo Speed Techs., LLC, No. 15-446 (U.S. Feb. 22, 2016).

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

[5] Id. at 1291 and 1293.

[6] Murray's Lessee v. Hoboken Land & Improvement Co., 59 U.S. 272, 284 (1855).

[7] Stern v. Marshall, 564 U.S. 462, 484 (2011).

[8] Id. at 485.

[9] Brief for Respondent at 30, Oil States Energy Servs., LLC, No. 15-446 (U.S. Oct. 23, 2017).

[10] Brief of Petitioner, Oil States Energy Servs., LLC, No. 15-446 (U.S. Aug. 24, 2017).

[11] Commodity Futures Trading Comm'n v. Schor, 478 U.S. 833, 851 (1986).

[12] See Order Dismissing Case, SurfCast, Inc. v. Microsoft Corp., ECF No. 315 (D. Me. August 21, 2017) (No. 2:12-cv-00333-JDL).

[13] Id. at 2.

[14] Order at 1, LEAK Surveys, Inc. v. FLIR Systems, Inc., ECF No. 141 (N.D. Tex. November 13, 2017) (No. 3:13-cv-02897).

[15] Id.

[16] Id. at 3.

[17] See, e.g., Mylan Pharmaceuticals Inc., et al. v. Saint Regis Mohawk Tribe , IPR 2016-01127.

[18] Ryan Davis, USPTO Chief Predicts Supreme Court will Uphold AIA Reviews (June 29, 2017), https://www.law360.com/articles/934552/uspto-chief-predicts-supreme-court-will-uphold-aia-reviews.

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

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