

ALERT

Oil States Energy Services, LLC v. Greene's Energy Group, LLC

December 6, 2017

The U.S. Supreme Court recently heard arguments as to whether the Patent Trial and Appeal Board (PTAB) can constitutionally invalidate patents through *inter partes* review. In 2012, Oil States sued Greene's Energy for patent infringement in the Eastern District of Texas. The patent claims an apparatus and method for protecting wellheads used in hydraulic fracturing. In turn, Greene's Energy petitioned the PTAB to institute *inter partes* review. The PTAB determined that the claims were anticipated, and thus unpatentable.

I. Public Right or Private Property

The competing briefs focused on whether patent rights are a public right or private property. If a public right, then the executive branch, including the PTAB, may limit or revoke that right. Patents might be a public right because patent protection would not exist but for federal statutes. Congress tasked the U.S. Patent and Trademark Office (USPTO) with granting patents for inventions meeting statutory criteria. *Inter partes* review is a mechanism to quality control those patent grants. If patents are private property, on the other hand, then the patentee is entitled to a proceeding with Article III supervision. Otherwise, the tribunal needs the patentee's consent to adjudicate its patent's validity. Oil States also argued that the Seventh Amendment guarantees patent holders a jury trial for common law issues, which historically included patent validity disputes.

II. Oral Arguments

Oral arguments took a different turn as the Justices keyed in on four other issues: (1) reexamination versus adjudication, (2) patent holder expectations, (3) Due Process, and (4) Article III.

Practice Areas

Intellectual Property

Patent

First, the Court questioned whether *inter partes* review is truly an adversarial proceeding between two private parties. Oil States conceded to Chief Justice Roberts and Justices Ginsburg and Kagan that *ex parte* and *inter partes* reexamination are constitutional because they are fundamentally examinational, *i.e.*, between a patentee and the PTAB. By contrast, *inter partes* review is essentially adjudicational, *i.e.*, an adversarial proceeding between private parties. Pushing back, Justice Breyer opined that agencies regularly adjudicate private party issues. Justices Ginsburg and Sotomayor also pointed out that third parties do not prosecute complaints because the PTAB can proceed to a final written decision even after the parties settle. Justice Kagan observed that an *inter partes* review is actually between the patentee and the PTAB; the third party merely aids the USPTO. Indeed, Justice Ginsburg highlighted that *inter partes* review could not be a substitute for adversarial litigation given the limited scope of the PTAB's review to anticipation and obviousness under § 102 and 103.

Second, the Court discussed a patent holder's expectations given the Patent Act's statutory language and a patentee's substantial investments in monetizing the technology. Justice Breyer pointed to the Patent Act's language that patent rights are "subject to the provisions of this title," so patentees are on notice as to the conditional nature of patent rights. Justice Kennedy suggested that patent holders necessarily have limited expectations as to scope and validity. For example, Congress may change the duration of patent protection. The United States agreed that patentees are on notice that patents would always be subject to patentability examinations. However, this is not a case where Congress raised the bar to patentability. Oil States distinguished Justice Kennedy's time-limited patent rights example by contrasting *inter partes* review as an unconstitutional condition versus the Constitution's Art. 1, § 8, Cl. 8 express limitation of patent duration by time. Chief Justice Roberts probed this rationale by inquiring as to the relationship between the Takings Clause and qualified patent protection. Oil States replied that the Takings Clause imposes a "public use" and "just compensation" requirement; revoking patent grants does not.

Third, the Court reviewed Due Process requirements. Chief Justice Roberts articulated that Due Process prohibits the government from both bestowing "the sweet of having a patent" while imposing the "bitter that the government might reevaluate it at some subsequent point." Justice Breyer illustrated the vested rights theory: after substantial passage of time and investments, a patentee reasonably expects that its patents are enforceable. The United States postulated that patentees are necessarily on notice as to potential validity proceedings, whether before the PTAB or in an Article III court.

Another Due Process critique with *inter partes* review is that the USPTO can add more judges to a panel, thus influencing a panel's decision. Justices Sotomayor and Gorsuch appeared particularly skeptical – appeals go to the Federal Circuit, and the PTAB is not an adjunct to the District Courts. If neither party appeals, then the judgment is binding. On the other hand, Chief Justice Roberts theorized that changing the panel's composition merely allows the USPTO to implement policy and ensure uniformity. Greene's Energy argued that the Administrative Procedure Act safeguards Due Process, which requires fairness, not an Article III proceeding. Perhaps a proper analogy is a rehearing *en banc* where the full court corrects earlier panels to follow precedent.

Finally, the Court considered Article III ramifications. Chief Justice Roberts first inquired about the sufficiency of the *Schor* test to determine if something is or is not a public right. Per the United States, *Schor*, *Stern*, and *Northern Pipeline* are distinguishable – those cases concern whether a non-Article III tribunal can adjudicate and impose money damages. *Inter partes* review requires no damages. The United States articulated to Justice Kagan that judicial review is tangential when the concern is Due Process, *i.e.*, divesting a patent holder of property. Indeed, the USPTO cannot adjudicate infringement actions, which impose liability. According to the United States, the USPTO's domain ends with determining patentability; third-party input does not bear on constitutionality.

The Supreme Court is expected to rule on the constitutionality of *inter partes* review in 2018.