

Reproduced with permission from BNA's Patent, Trademark & Copyright Journal, 105 PTD, 05/31/2018. Copyright © 2018 by The Bureau of National Affairs, Inc. (800-372-1033) <http://www.bna.com>

Oil States v. Greene's Energy: IPR Here to Stay, For Now

Inter Partes Reviews

Although patent owners may be expected to pursue retroactive application, due process, and takings challenges, the major headline from *Oil States v. Greene's Energy* remains that *inter partes* reviews are here to stay, write David Cavanaugh, Mark Fleming, and William Kinder of WilmerHale.



BY DAVID CAVANAUGH, MARK FLEMING, AND
WILLIAM KINDER

The U.S. Supreme Court on April 24 issued its decision in the closely watched patent case *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, 138 S. Ct. 1365 (2018). The case addressed a constitutional challenge to *inter partes* review (IPR), the process created by Congress through which the U.S. Patent and Trademark Office (PTO) may reconsider and cancel patent claims that were previously issued. The patent owner, Oil States Energy Services, argued that IPR violated Article III of the Constitution — under which the “judicial power” of the U.S. must be vested in federal

David Cavanaugh is a Washington-based partner at WilmerHale and chair of the firm's Post-Grant Patent Proceedings group.

Mark Fleming is a Boston-based partner at WilmerHale and vice chair of the firm's Appellate and Supreme Court Litigation practice.

William Kinder is a New York-based senior associate at WilmerHale.

courts — and the Seventh Amendment right to a jury trial.

In a 7-2 decision, the Supreme Court rejected Oil States' arguments, upholding the IPR system as constitutional. The court invoked the “public rights doctrine,” under which Congress has significant latitude to assign the adjudication of “public rights” to decision makers other than federal courts. However, the decision expressly leaves open the possibility of other constitutional challenges to the IPR system that Oil States did not directly raise.

Although patent owners may be expected to pursue those potential challenges — such as retroactive application, due process, and takings — the major headline from this case remains that IPR is here to stay.

Inter Partes Review and Proceedings Below

In the America Invents Act of 2012 (AIA), Congress created IPR as a process by which the PTO may reconsider and cancel wrongly issued patent claims. An eligible IPR “petitioner” may file a petition with the PTO seeking cancellation of claims as obvious or anticipated. Although the AIA gives the PTO director discre-

tion as to whether to institute review, the director has delegated that authority to the Patent Trial and Appeal Board (PTAB). If the PTAB decides to institute review, the claims' validity is examined by a panel of three administrative patent judges. The petitioner and patent owner are entitled to certain discovery, including witness depositions; to submit fact evidence and expert opinions; and to participate in an oral hearing before the PTAB. The PTAB is required to issue a final written decision within one year of the institution date, and the decision may be subject to judicial review by the U.S. Court of Appeals for the Federal Circuit.

Oil States Energy Services obtained a patent directed to protecting well-head equipment used in hydraulic fracturing and later sued its competitor, Greene's Energy Group, for infringement in the U.S. District Court for the Eastern District of Texas. While the district court case was pending, Greene's Energy petitioned for IPR, asserting that Oil States' patent claims were anticipated. The PTAB instituted review and concluded that the challenged claims were unpatentable.

Oil States appealed to the Federal Circuit, asserting that the claims were valid and that any actions to revoke a patent must be tried to a jury in an Article III court. The Federal Circuit summarily affirmed the PTAB's decision, relying on circuit precedent rejecting the same constitutional arguments — *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284, 1288-93 (Fed. Cir. 2015). Oil States petitioned for certiorari on multiple grounds, and the Supreme Court granted certiorari on the Article III and Seventh Amendment questions.

Oil States: The Majority Opinion

Justice Clarence Thomas wrote the majority opinion joined by Justices Anthony Kennedy, Ruth Bader Ginsburg, Stephen Breyer, Samuel Alito, Sonia Sotomayor, and Elena Kagan. The majority ruled that IPRs “fall[] squarely within the public-rights doctrine” of the court's Article III precedents. *Oil States*, 138 S. Ct. at 1373. Under the public-rights doctrine, Congress has significant latitude to assign the adjudication of public rights — as opposed to private rights — to decision-making entities other than federal courts.

The court reasoned that a patent grant gives inventors “a public franchise,” which is a type of public right and “a creature of statute law.” *Id.* at 1373-74 (citations omitted). A patent thus resembles other qualified public franchises, such as when the government authorizes the building of a toll bridge while reserving the right to revoke the authorization. *Id.* at 1375. Because IPR is simply a reconsideration of the initial grant of a patent, the PTO may conduct IPR proceedings without violating Article III. *Id.* at 1374. The court further explained that it makes no difference that IPR occurs after initial examination, because even when a patent is first granted, it is subject to the qualification that the PTO may later re-examine it. Patents are thus different from typical private property because they convey only a specific form of right: a public franchise derived from statute. *Id.* at 1375.

The majority went on to reject the Article III arguments raised by *Oil States* and the dissent. The court concluded that:

■ Prior precedents did not establish that patents are private rights for constitutional purposes. Cases relied on by *Oil States* merely interpreted prior versions of the

Patent Act and did not limit Congress's constitutional authority to create a different system. *Id.* at 1375-76.

■ Historically, patent rights were not exclusively adjudicated in courts of law. The Founders understood “that a patent system could include a practice of granting patents subject to potential cancellation,” a view supported by patent revocation proceedings conducted by the English Privy Council. *Id.* at 1376-77.

■ Similarities between IPR proceedings and district court cases are not evidence of an Article III violation. Such similarities are immaterial, as the court “has never adopted a ‘looks like’ test” in its Article III jurisprudence. *Id.* at 1378.

■ The unconstitutional conditions doctrine — which prevents government from “using conditions to produce a result it could not command directly” — does not apply to IPR, because IPR is something that Congress can command directly under the Patent Clause of Article I of the Constitution. *Id.* at 1377 n.4. (citations omitted).

Despite rejecting the constitutional challenges before it, the court concluded its opinion by “emphasiz[ing] the narrowness” of its Article III holding. *Id.* at 1379. The decision “addresses only the precise constitutional challenge that *Oil States* raised,” and does not, for example, decide retroactivity, due process, or takings issues. The court also briefly noted that, because the Seventh Amendment poses “no independent bar” to an adjudication by a nonjury factfinder, the court's Article III analysis resolved the Seventh Amendment challenge. Justice Breyer wrote a short concurrence — joined by Justices Ginsburg and Sotomayor — emphasizing that the court's opinion “should not be read to say that matters involving private rights may never be adjudicated by [agencies].” *Id.* at 1379-80.

Oil States: The Dissent

Justice Neil Gorsuch's dissent, joined by Chief Justice John Roberts, urged that executive branch adjudications invite “[p]owerful interests” to “amass[] armies of lobbyists and lawyers to influence (and even capture) politically accountable bureaucracies.” *Id.* at 1381. Article III of the Constitution exists to protect against that threat, and the majority's upholding of IPR was an improper incursion on Article III's requirement that “the federal ‘judicial power’ ” be vested only in “independent judges,” Justice Gorsuch wrote.

Justice Gorsuch read the historical record differently from the majority, concluding that the influence of the English Privy Council waned toward the time of the founding, which was evidence of a “shift in thinking” — “from viewing a patent as a contract between the crown and the patentee” to something more akin to a private property right. *Id.* at 1382 (citations omitted). Early U.S. history further confirms this understanding, according to Justice Gorsuch. *Id.* at 1383-85. Consequently, he viewed the court's approval of IPR as “a retreat from Article III's guarantees.” *Id.* at 1386.

Possible Further Challenges to IPR

Oil States confirms that IPR will remain in place for now. But the court's express statement of the “narrowness” of its holding all but invites future challenges.

Retroactivity Challenges

The court noted that “Oil States does not challenge the retroactive application of [IPR], even though that procedure was not in place when its patent issued.” *Id.* at 1379. Most retroactivity challenges are not constitutional in nature, but assert that Congress is presumed not to give *statutes* any retroactive effect as a matter of fairness. *Landgraf v. USI Film Products*, 511 U.S. 244, 280 (1994). However, the AIA expressly states that IPR procedures “shall apply to *any* patent issued *before, on, or after*” the creation of IPR. AIA § 6(c)(2)(A), 125 Stat. 304 (emphasis added).

Some cases address retroactivity in the context of assigning judicial powers to an administrative agency. For example, in *Patlex Corp. v. Mossinghoff*, a patentee that obtained its patent before the creation of *ex parte* re-examination argued that “the right to have validity determined by a jury and an Article III court . . . accompanied the grant of his patents, and thus that the retroactive scope of reexamination worked a prohibited deprivation.” 758 F.2d 594, 603 (Fed. Cir. 1985). The Federal Circuit rejected that challenge based on reasoning strikingly similar to the Supreme Court’s reasoning in *Oil States*: a patent grant is “primarily a public concern,” such that the government may use procedures for error-correction. *Id.* at 604.

Due Process and Takings Challenges

The court also noted that Oil States had not “raised a due process challenge,” *Oil States*, 138 S. Ct. at 1379. Retroactive legislation violates due process if its retroactive effect is not rationally related to a legitimate legislative purpose. See *Pension Benefits Guar. Corp. v. R. A. Gray & Co.*, 467 U.S. 717, 730 (1984). “Legislation readjusting rights and burdens is not unlawful solely because it upsets otherwise settled expectations[, even where] the effect of the legislation is to impose a new duty or liability based on past acts.” *Usery v. Turner Elkhorn Mining Co.*, 428 U.S. 1, 16 (1976). Due process claims based on retroactivity have often failed under rational basis review. For example, in *Brooks v. Dunlop Mfg. Inc.*, the Federal Circuit rejected a due process challenge to the AIA’s retroactive elimination of the *qui tam* provision in the patent marking statute. 702 F.3d

624, 630 (Fed. Cir. 2012). The court held that Congress had sought to curb inefficiencies in ongoing false marking litigation, as well as eliminate a live question about the constitutionality of the existing provision. *Id.* at 629-630. The Federal Circuit concluded that both were legitimate objectives and that eliminating the *qui tam* provision was a rational way to pursue them.

The court also stated that the *Oil States* decision “should not be misconstrued as suggesting that patents are not property for purposes of the Due Process Clause or the Takings Clause.” *Oil States*, 138 S. Ct. at 1379. This sentence might be read as recognizing that a patent is private property that the government cannot take without due process or just compensation, rather than a statement that IPR works a taking. Takings claims based on regulatory changes are governed by the *Penn Central* test, which weighs investment-based expectations against governmental interests. *Horne v. Dep’t of Agric.*, 135 S. Ct. 2419, 2427 (2015). Before the AIA, Congress had authorized post-grant review through *ex parte* re-examination and *inter partes* re-examination. Thus, a party seeking to advance a takings challenge would have to convince a court that an IPR is so different from the previously authorized procedures that it constitutes an uncompensated deprivation of property. Additionally, a party advancing such a position would have to convincingly argue that a person can have an expectation of obtaining a patent based on something that is unpatentable. Almost certainly, these issues will be litigated in the future.

Conclusion

Oil States itself will have little impact on IPR practice at the PTAB, other than confirming that it will continue. Another opinion issued April 24, *SAS Institute v. Iancu*, 138 S. Ct. 1348 (2018), is already having far more noticeable practical consequences. In *SAS Institute*, the court rejected the PTAB’s practice of partially instituting IPR on a subset of claims challenged in the IPR petitions. 138 S. Ct. at 1352-53. The *SAS Institute* decision and its implications are the subject of a separate forthcoming Bloomberg Law article by our colleagues Tom Saunders, Heather Petrucci, and David Yin.

Oil States is important precisely because the court did not take the opportunity to end IPR altogether.