

## The Bitter and the Sweet: Supreme Court Oral Argument Indicates Potential Split on Constitutionality of *Inter Partes* Patent Review

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Is a defeated patentee at *Inter Partes* Review an embittered citizen whose private rights were taken without due process by a government agency lacking requisite Article III guarantees of impartiality? Or is the public getting a sweet deal when the Patent Trials and Appeals Board (PTAB) eliminates or revokes a public right that was wrongfully granted in the first place? The Supreme Court wrestled with the constitutionality of *Inter Partes* Review during oral argument on Monday morning, and the Justices' questions from the bench suggested rather strong differences of opinion but provided no clear insights on how the Court would rule.

Since September 16, 2012, the Patent Trials and Appeals Board (PTAB) has wielded the power of *Inter Partes* Review ("IPR") thanks to the passage of the Leahy-Smith America Invents Act. The PTAB is a part of the Patent and Trademark Office ("PTO"), an administrative agency in the executive branch of government. IPR, a trial-like proceeding that reviews patentability under Sections 102 (anticipation) and 103 (obviousness) of the U.S. Patent Act based on prior patents or printed publications, opened a floodgate of challenges to issued patents. A substantial percentage of the challenges that have gone to final written decision have been successful in whole or in part. As a result, the economics of patent ownership and enforcement have changed in the past five years. The United States Supreme Court granted a petition for a writ of certiorari on the issue of the constitutionality of the IPR process in *Oil States Energy Services LLC v. Greene's Energy Group, LLC.*, 639 Fed. App'x 639 (Fed. Cir 2016), *cert. granted*, 198 L. Ed. 2d 677 (U.S. Jun. 12, 2017) (No. 16-712). On November 27, 2017, the Supreme Court heard the oral argument.

Oil States is the owner of a patent for which two (of 27) claims were held unpatentable by the PTAB through the institution of an IPR. The PTAB held the challenged claims unpatentable after a District Court in the Eastern District of Texas effectively ruled in Oil States' favor in a concurrent proceeding. The PTAB also denied Oil States' motion to amend its patent claims during the IPR proceeding. Oil States appealed to the U.S. Court of Appeal for the Federal Circuit (unsuccessfully) and then to the Supreme Court, arguing that the IPR process violated Oil States' right to a judicial determination in a court established pursuant to Article III of the Constitution and the Seventh Amendment, which guarantee a jury trial. Oil States' appeal is based on the argument that patent rights are private rights and the IPR is adjudication, between parties, of private rights that, since the founding of the Republic, have required a jury trial in an Article III court and may not be revoked by the executive branch. Respondent Greene's Energy, the challenger of the patent, argues that patent rights are fundamentally public rights. Under established Supreme Court precedent, such public rights can be revised, curtailed, revoked or taken by an administrative agency without a jury trial in an Article III court.

The separation of powers concern was framed by the petitioner's attempt to differentiate the allegedly unconstitutional "adjudicational" IPRs from the historically constitutional "examinational" proceedings (e.g., *ex parte* reexamination that began July 1, 1981). The petitioner argued that the trial-like adversarial IPR proceedings violate the Seventh Amendment and should be carried out in Article III courts because mechanisms such as third-party participation beyond the petition, discovery, depositions of declarants, and evidence objections resemble an Article III adjudicational process. Questions from several of the Justices suggested that a long tradition of administrative agencies managing some aspects of statutory rights (such as in the labor-employment context) might support constitutionality of IPR. They also indicated that since patent rights are created by statute, Congress can also limit that right (Justice Breyer questioned whether Congress can shorten the lifetime of patents) and create mechanisms to correct its actions to increase government accuracy. Given

the historical practice of the PTO correcting patent issuances through mechanisms like *ex parte* reexamination, Justice Kagan pressed the petitioner extensively to draw the line between an admittedly constitutional administrative reexamination procedures and an allegedly unconstitutional IPR. However, several Justices did express concerns for the structural imbalance between the judicial and executive branch, the finality of IPR decisions, and the insufficiency of appeals to the Federal Circuit as a judicial safety net.

Justice Gorsuch was the most vocal about his concerns of IPR taking away a private right. He repeatedly pressed the analogy between patent property rights and land property rights, and appeared skeptical about the government's ability to take such rights away. Chief Justice Roberts summarized the government's position as "you've got to take the bitter with the sweet: If you want the sweet of having a patent, you've got to take the bitter that the government might reevaluate it at some subsequent point," a proposition which, he stated, has been expressly rejected by a long line of Supreme court cases.

Several Justices inquired extensively about whether the IPR proceedings provide due process. Those inquiring seemed to agree that there could be problems with fairness and due process under the IPR proceeding. Justice Breyer's questions expressed concern that the government can take away the patentee's rights after years of reliance on that particular patent. The Respondent's counsel answered that IPR proceedings are substantially similar to other re-examination proceedings, as they engage in the same analyses, and further delineated that IPRs seek not to extinguish patent rights but to retract those that should never have existed. The Justices appeared somewhat unified in their concerns regarding the PTAB's unfettered discretion with regard to the PTO Director's expressly reserved ability to broaden the PTAB from three to five judges (termed "panel packing"), and the potential for installing judges sympathetic to particular viewpoints to manipulate outcomes.

Notwithstanding early predictions by USPTO leadership of a 9-0 affirmance, questioning from the Justices suggests a closer vote. Despite several questions expressing skepticism, the Supreme Court appears to lean toward upholding the constitutionality of IPR though perhaps with provisions either limiting the PTAB's reach to make final decisions or reducing the petitioner's participation in the IPR process. Should the Supreme Court affirm the Federal Circuit's position that IPRs are constitutional, patent owners will continue to face formidable IPR challenges and will struggle to prosecute claims that can withstand such challenges. Conversely, if the Supreme Court finds that IPR proceedings are unconstitutional, there could be sweeping consequences including the effective revival of patent families previously held unpatentable, reigniting bitter disputes to be litigated in the Courts. Should that happen, opponents of the IPR process, including those protesting outside the Supreme Court throughout the arguments, will savor a sweet, sweet victory.

