

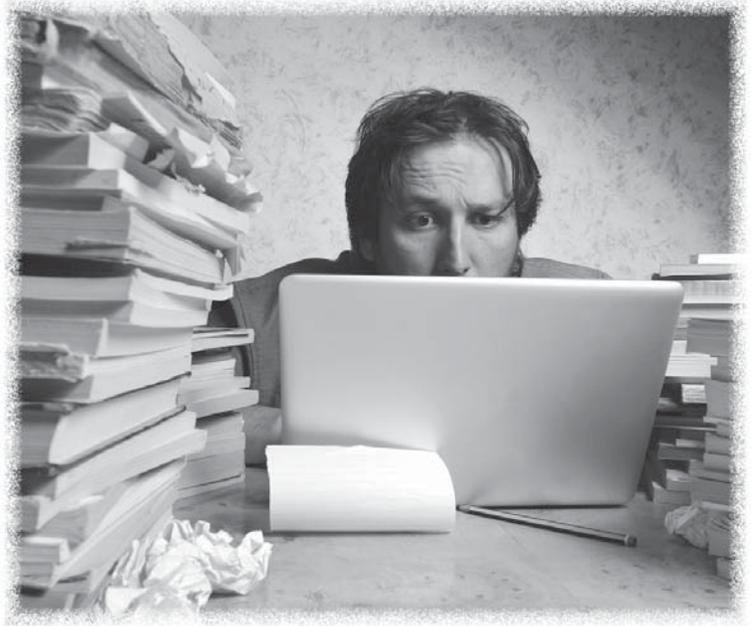
The Patent Trial and Appeal Board (PTAB) and the Supreme Court: How *Oil States* Threatens to Reverse Congressional Efforts to Reform Patent Litigation

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On June 12, 2017, the United States Supreme Court granted certiorari in *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, No. 16-712 (S. Ct.), a case involving a challenge to the constitutionality of the Patent Trial and Appeal Board (PTAB), an administrative adjudicatory body of the U.S. Patent and Trademark Office (PTO). This was largely unexpected. Were the Supreme Court to rule that the PTAB is unconstitutional, the outcome would not only be a surprise—it would have a massive impact on how patent disputes are currently litigated in the United States and would thwart Congressional efforts to shift patent validity disputes from the federal courts to the PTO.

Why the PTAB has experienced such popularity

Since Congress created the PTAB in the America Invents Act in 2012, patent practitioners nationwide have become accustomed to litigating patent invalidity claims in post-grant adversarial review proceedings adjudicated before the PTAB.¹ These proceedings permit a party to challenge the validity of an issued patent before a panel of PTO administrative judges, instead of engaging in protracted patent litigation before a jury in federal court. Over the past five years, parties have been wildly successful at invalidating patents before the PTAB: PTO statistics indicate that, from September 2012 through July 2017, in cases where the PTAB has instituted review proceedings in response to a petition, the patent challenger has succeeded in having



all of the challenged patent claims deemed unpatentable 65% of the time, and at least some of the challenged claims have been invalidated 82% of the time.² Such statistics led the former Chief Judge of the Federal Circuit to characterize the PTAB as being a patent “death squad.”³

Beyond such statistical considerations, the PTAB provides many other advantages to the patent challenger. The cost benefits are significant, for example. AIPLA, which conducts a national economic survey of U.S. patent practitioners every two years, currently estimates that PGR proceedings on average cost from \$350,000 to \$450,000 through any appeal, whereas patent litigation in federal court is estimated to cost between \$1 and \$1.5 million through any appeal for matter in which \$1 to \$10 million are at stake.⁴ (When more is at stake—as is often the case in patent disputes—court costs can escalate even further.)

The speed of PTAB proceedings is another benefit to litigants. A final

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written decision is ordinarily issued by the PTAB within 12 months of institution of the PTAB proceedings.⁵ In contrast, the average time to trial in the U.S. District Court for the District of Delaware—a popular patent litigation venue that has what is considered to be a relatively speedy docket—is reported to have had a median time-to-trial of 2.1 years from 1997 to 2016.⁶ And in court, a defendant must face infringement and damages claims. In a PTAB trial, only the patent holder faces risk.

Furthermore, in district court litigation, an issued patent is presumed to be valid,⁷ and a patent challenger is obligated to prove the invalidity of a patent by clear and convincing evidence.⁸ In the PTAB, however, a patent challenger need only prove invalidity by a preponderance of the evidence,⁹ and the PTAB must give the patent under review the “broadest reasonable interpretation,” which increases the likelihood that the patent will be brought into conflict with the prior art.¹⁰ Such factors help explain the popularity of the PTAB forum.

The PTAB’s constitutionality was rarely questioned

Prior to the Supreme Court’s grant of certiorari in *Oil States*, the constitutionality of the PTAB had rarely been questioned. After all, the Constitution grants Congress the power to “promote the progress of science and useful arts, by securing for limited times to . . . inventors the exclusive right to their . . . discoveries.”¹¹ And if Congress and the PTO are empowered to give a patent, surely they possess the concomitant power to take it away? Indeed, patent reexamination procedures of varying kinds had been used at the PTO for many years with little fanfare, and the Federal Circuit had rejected constitutional challenges to such procedures on multiple occasions.¹²

For example, in *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284 (Fed. Cir. 2015), after the PTAB had invalidated four patent claims at HP’s request, the patentee MCM argued that IPR proceedings were unconstitutional because, it argued, actions to revoke a patent must be adjudicated by an Article III court and that there must be a trial by jury.¹³ The Federal Circuit rejected these arguments.¹⁴

Although the result in *MCM* was not unexpected in the intellectual property community, however, it arguably was inconsistent with the Federal Circuit’s prior holding in *In re Lockwood*, 50 F.3d 966 (Fed. Cir. 1995), in which the Federal Circuit had held that the patentee was entitled to a jury trial under the Seventh Amendment where the sole remaining claim was the defendant’s declaratory judgment counterclaim for invalidity.¹⁵ The Federal Circuit in *Lockwood* held that “[u]nder both English and American practice . . . it was the patentee who decided in the

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first instance whether a jury trial on the factual questions relating to validity would be compelled” and that it could not “consistent with the Seventh Amendment, deny *Lockwood* that same choice merely because the validity of his patents comes before the court in a declaratory judgment action for invalidity rather than as a defense in an infringement suit.”¹⁶ The *MCM* court brushed *Lockwood* aside in a footnote, without any substantive discussion.¹⁷

Complicating the issue further, the underlying rationale for the Federal Circuit’s decision in *MCM* was somewhat enigmatic. To uphold the PTAB system, the Federal Circuit relied upon something called the pub-

lic rights doctrine, which attempts to draw a distinction between so-called “private rights” and “public rights.”¹⁸ Under this doctrine, courts have recognized Congress’s power to delegate the adjudication of disputes over “public rights”—rights flowing from and integrated into a federal regulatory scheme—to non-Article III administrative bodies.¹⁹ Notwithstanding the fact that “patents shall have the attributes of personal property” under the federal patent laws,²⁰ and notwithstanding its prior decision in *Lockwood*, the Federal Circuit in *MCM* held that patents are “public rights,” not “private rights,” and thus agency adjudication of patent invalidity by the PTAB is not impermissible.²¹

As questions have continued to be raised over the size and scope of the modern administrative bureaucracy in Washington, D.C., however, so too has criticism been levelled against the rationale underlying the public rights doctrine, which has been denounced as an amorphous and ill-reasoned violation of the separation of powers and the Seventh Amendment right to a jury trial.²² More broadly, such concerns echo in many respects Justice Gorsuch’s criticisms of *Chevron* deference, which have struck a chord with those who doubt the wisdom (let alone the constitutionality) of transferring power from the Article III judiciary to the executive branch, growing the administrative state and diminishing the separation of powers.²³ By relying on the public rights doctrine, the Federal Circuit may have inadvertently dragged the otherwise obscure PTAB into this wider public debate.

The Supreme Court takes up the constitutionality of the PTAB in *Oil States*

The petitioner in *Oil States* wisely attempted to tap into these anti-bureaucratic sentiments, arguing

that “as the administrative state expands and non-Article III tribunals adjudicate more disputes . . . there must be vigilance in protecting Article III jurisdiction.”²⁴ Similarly, it argued that the PTAB scheme “takes a patent infringement claim out of the jury’s hands and entrusts it to bureaucrats.”²⁵ In the Supreme Court—which in recent years has been focused on preserving historical notions of the separation of powers—the petitioner may have found a sympathetic listener. For example, in *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 377 (1996), the Supreme Court stated that “there is no dispute that [patent] infringement cases today must be tried to a jury, as their predecessors were more than two centuries ago.”

Much earlier, in *McCormick Harvesting Machine Co. v. Aultman*, 169 U.S. 606 (1897)—a case that will be central to the *Oil States* debate—the Supreme Court had addressed the specific question of whether the PTO could determine that previously-allowed claims in an issued patent were, in fact, unpatentable in the context of reissue proceedings. The Supreme Court held that it could not. The Court held that a patent, once issued, “has become the property of the patentee, and as such is entitled to the same legal protection as other property” and that “[t]he only authority competent to set a patent aside, or to annul it, or to correct it for any reason whatever, is vested in the courts of the United States, and not in the department which issued the patent.”²⁶

Briefing in *Oil States* will not be complete until late November 2017, under the current schedule. But, although it may be surprising to practitioners at first blush—even practitioners steeped in intellectual property law—the constitutional arguments being pressed in *Oil States* are no mere “Hail Mary.” Rather, the

issues involved are deep and complex, implicating the heart of our constitutional system and the separation of powers, and moving well beyond the statutory wrangling that one typically sees in federal intellectual property cases. That much is readily apparent.

Conclusion

If the Supreme Court were to hold that the PTAB and its associated post-grant review proceedings are unconstitutional, it would destroy an integral pillar of the America Invents Act and its associated systemic patent reforms and would be a shocking and dramatic result. Over the past five years, multitudes of questionable patents have been eliminated through PTAB proceedings in relatively quick fashion, before savvy trial lawyers could assert the patents in patent infringement jury trials. PTO statistics show that over a thousand PTAB petitions are instituted each year, and hundreds of PTAB proceedings are currently pending.²⁷ In a sense, were the PTAB to be struck down, patent practitioners would be placed back in time to pre-AIA days, when defendants’ op-



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tions were far more limited and patentees held a majority of the cards. This would represent a radical sea change and would result in substantial chaos, at least in the short term.

In the longer term, were the PTAB to be eliminated on constitutional grounds, there is no doubt that legislative solutions could be devised that pass constitutional muster. For example, Congress could expand the ability of third parties to intervene in pending patent applications to advise the PTO of prior art and explain why a patent should not be issued,²⁸ thus in effect creating a pre-issuance “PTAB-like” adversarial proceeding similar to trade-

mark opposition proceedings.²⁹ No doubt there are many other avenues to address substantive patent problems without running afoul of the U.S. Constitution. Patent practitioners will be keeping a watchful eye on the Supreme Court's *Oil States* docket over the coming months to see whether further reforms will be needed.

Endnotes

1. Post-grant adversarial review proceedings typically come in three flavors: Inter Partes Reviews (or "IPRs"), Post Grant Reviews (or "PGRs"), and Covered Business Method Reviews (or "CBMs"). The differences between these three types of proceedings is beyond the scope of this article.

2. See <https://www.uspto.gov/patents-application-process/appealing-patent-decisions/statistics/aia-trial-statistics> (July 2017 statistics).

3. The statement was made in the context of a presentation made during the annual meeting of the American Intellectual Property Law Association ("AIP-PLA") on October 25, 2013. See, e.g., Tony Dutra, *Rader Regrets CLS Bank Impasse, Comments on Latest Patent Reform Bill*, Bloomberg BNA (Oct. 29, 2013), available at <https://www.bna.com/rader-regrets-cls-n17179879684>.

4. *2017 Report of the Econ. Survey* app. A at I-120, I-163 (AIPLA June 2017), available at <http://www.aipla.org/learningcenter/library/books/econsurvey/2017EconomicSurvey/Pages/default.aspx>.

5. See 37 C.F.R. §§ 42.100(c), 42.200(c), 42.300(c).

6. *2017 Patent Litig. Study*, Fig. 18 (PwC May 2017), available at <https://www.pwc.com/us/en/forensic-services/publications/patent-litigation-study.html>.

7. 35 U.S.C. § 282(a).

8. See *Microsoft Corp. v. i4i P'ship*, 564 U.S. 91, 99–113 (2011).

9. 35 U.S.C §§ 316(e), 326(e).

10. See 37 C.F.R. §§ 42.100(b), 42.200(b), 42.300(b); *Cuozzo Speed Techs., LLC v. Lee*, ___ U.S. ___, 136 S. Ct. 2131, 2142–46 (2016) (upholding PTAB's adoption of broadest reasonable construction standard).

11. U.S. Const. art. I, § 8, cl. 2.

12. See, e.g., *Cascades Projection LLC v. Epson Amer., Inc.*, Nos. 2017-1517, 2017-1518, 2017 WL 1946963 (Fed. Cir. May 11, 2017) (per curiam) (denying petition for rehearing en banc); *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284 (Fed. Cir. 2015); *Patlex Corp. v. Mossinghoff*, 758 F.2d 594 (Fed. Cir. 1985).

13. See *MCM*, 812 F.3d at 1288–93.

14. See *id.*

15. See *Lockwood*, 50 F.3d at 980. After the Supreme Court granted certiorari in *American Airlines, Inc. v. Lockwood*, 515 U.S. 1121 (1995), the patent holder withdrew his jury demand, and for that reason the Supreme Court vacated the Federal Circuit's decision and remanded the case. See *American Airlines, Inc. v. Lockwood*, 515 U.S. 1182 (1995).

16. *Id.* at 976.

17. See *MCM*, 812 F.3d at 1291 n.2.

18. See *id.* at 1288–93.

19. See *id.* (citing, e.g., *Murray's Lessee v. Hoboken Land & Improvement Co.*, 59 U.S. 272 (1855)).

20. 35 U.S.C. § 261; see also *Horne v. Department of Agric.*, ___ U.S. ___, 135 S. Ct. 2419, 2427 (2015) ("[A patent] confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation, any more than it can appropriate or use without compensation land which has been patented to a private purchaser.") (quoting *James v. Campbell*, 104 U.S. 356, 358 (1881)).

21. See *MCM*, 812 F.3d at 1288–93.

22. See, e.g., Kenneth S. Klein, *The Validity of the Public Rights Doctrine in Light of the Hist. Rationale of the Seventh Am.*, 21 *Hastings Const. L.Q.* 1013 (1994).

23. See, e.g., Ilya Somin, *Gorsuch is right*

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about *Chevron deference*, Wash. Post (Mar. 25, 2017).

24. Br. for Petitioner, No. 16-712 (S. Ct. Aug. 24, 2017) (quoting *Cascades*, 2017 WL 1946963, at *14 (Reyna, J., dissenting from denial of rehearing en banc)).

25. Petition for a Writ of Certiorari, No. 16-712 (S. Ct. Nov. 23, 2016) at 13.

26. *McCormick*, 169 U.S. at 609. Surprisingly, in opposing the petition for certiorari, the private respondent did not address the holding in *McCormick*. The U.S. Department of Justice, however, responding on behalf of the PTO, argued that *McCormick* predated the existence of any post-grant review proceedings (such as the PTAB), was merely addressing the statutory scheme in place at the time, and thus is inapposite. See Br. for the Fed. Respondent in Opp'n, No. 16-712 (S. Ct. Apr. 28, 2017).

27. See <https://www.uspto.gov/patents-application-process/appealing-patent-decisions/statistics/aia-trial-statistics> (July 2017 statistics).

28. See 35 U.S.C. § 122(e).

29. See, e.g., 15 U.S.C. § 1063.

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