

## AIA Constitutionality Case Could Create Patent Law Chaos

By Ryan Davis

*Law360, New York (June 13, 2017, 6:21 PM EDT)* -- A case the U.S. Supreme Court agreed to hear Monday challenging the constitutionality of America Invents Act reviews could throw patent law into turmoil by derailing a system that has been used to challenge thousands of patents, while creating a host of new issues for courts to resolve.

The justices decided to consider an appeal by Oil States Energy Services LLC, which is arguing that under the U.S. Constitution, only federal courts, not executive branch tribunals like the Patent Trial and Appeal Board, can decide whether a patent is invalid.

If the high court agrees, it would likely eliminate a system that has been embraced by accused infringers as an efficient way to invalidate patents. Such a ruling would also generate new questions, including what happens to all the patents the PTAB has already invalidated, and whether other programs like re-examination are unconstitutional as well.

“The Supreme Court's decision holds the potential to be one of the most significant patent decisions in decades,” said Marshall Schmitt of Michael Best & Friedrich LLP. “AIA trials have become the focal point of many patent disputes. Finding that these trials are unconstitutional will raise a myriad of issues that will require either congressional action or a monumental investment in judicial resources.”

A decision striking down AIA reviews would leave litigants, judges, the U.S. Patent and Trademark Office and Congress scrambling to grapple with the fallout, attorneys say.

“If the court were to find the proceedings unconstitutional, it’s just going to be a mess to figure out the scope of the decision,” said Craig Countryman of Fish & Richardson PC.

Oil States maintains that patents are private property rights — which can only be revoked by a federal court under Article III of the U.S. Constitution — and not public rights that can be revoked by a government agency. It urged the high court to overturn a Federal Circuit decision that patents are public rights and that AIA proceedings like inter partes review are therefore constitutional.

Attorneys expect the briefing and arguments in the case to hinge on the question of how patents should be categorized. Are they private property owned by patentees, who have the ability to exclude others from using their invention? Or are they public rights created by the government through regulations, which the government can therefore invalidate?

"It seems to me the main issue this is going to boil down to is whether patents should be treated as public rights or private rights," said Joshua Goldberg of Finnegan Henderson Farabow Garrett & Dunner LLP.

Oil States maintains that patents have been "recognized for centuries as a private property right." They exist wholly apart from the government after they are issued, the company said, noting that the patent owner, not the USPTO, must enforce patents by filing suit. The company further notes that a 19th-century Supreme Court decision held that only courts have the authority to "set a patent aside, or to annul it or to correct it for any reason whatever."

The USPTO urged the Supreme Court not to hear the case, saying patents are "quintessential public rights" that only exist because the government has passed laws establishing when they can be issued. Since patents are in effect created by the patent office, they can be taken away by the office as well, it said.

If the Supreme Court rules that only district courts can rule on validity, challenging patents will immediately become much more difficult. Since the proceedings became available in 2012, the PTAB has received nearly 7,000 petitions challenging patents and issued more than 1,500 final decisions, around 1,300 of which have invalidated at least some of the challenged claims.

The justices could fundamentally alter the patent landscape by simply eradicating the option of challenging patents at the board. That would be a blow to accused infringers, who see it as a faster and less expensive way to challenge patents than court, and likely welcomed by patent owners, who view the board's frequent invalidity decisions as a threat to patent rights.

"If the ruling comes out as a complete finding that IPRs and other patent challenges are unconstitutional, I don't see how the result could be anything other than their immediate termination," said Eldora Ellison of Sterne Kessler Goldstein & Fox PLLC.

In addition to restricting future patent challenges, a decision that the PTAB never had the constitutional authority to review patents would spur fierce legal battles over the fate of the hundreds of patents the board has found invalid to date.

"What happens to all those patents? Do they suddenly spring back to life?" Countryman said.

For cases that are still pending on appeal, patent owners could likely use the high court's ruling to undo PTAB invalidity decisions. When a case has already reached a final decision, a Supreme Court ruling may come too late to save patents invalidated by the board, but attorneys anticipate that patentees will make creative arguments to attempt to claw them back.

"Depending on how far the decision goes, patent owners will certainly try to revive their patents," said Naveen Modi of Paul Hastings LLP.

The effect of a decision holding AIA reviews unconstitutional could extend to other proceedings. Before the AIA, the USPTO had reviewed and invalidated patents in other proceedings like re-examination since 1980. While the Supreme Court case involves inter partes reviews, the justices could effectively abolish re-examinations as well if they find that the patent office has no authority to revoke patents.

"You have to wonder if the Supreme Court calls IPRs into question, what that means for all the other proceedings," Countryman said. "They would have the same constitutional deficiency, so they would be at risk, too."

Goldberg said he finds the prospect of the Supreme Court disrupting decades of precedent allowing the USPTO to invalidate patents to be unsettling.

"It would seem very problematic if the Supreme Court were to come in and say everything that has happened for the last 30-plus years shouldn't have happened," he said.

A decision barring the USPTO from ever again invalidating patents would be celebrated by patent owners who have argued that the PTAB is slanted against them and is stripping away valuable private property.

"This is a pretty good day for patent owners," Robert Greenspoon of Flachsbart & Greenspoon LLC, who has represented patentees who have challenged the constitutionality of AIA reviews in other cases, said Monday. "Today is the day we might finally return the word 'property' to the term 'intellectual property.'"

He suggested that even if the Supreme Court finds AIA reviews unconstitutional, they could continue with one key difference: the PTAB's decisions would have no legal effect. Instead of revoking the patent, the board would express its non-binding advisory opinion that the patent is invalid, which accused infringers could then use as evidence in infringement cases in court.

"The institution can exist even if the current version of the statute is unconstitutional," Greenspoon said. "It would become less popular, that's likely. But it wouldn't disappear, although it would have less utility for those accused of infringement."

Other attorneys were skeptical that such a system would be viable. They questioned whether patent challengers would have any interest in pursuing an inter partes review if the board's decision had no legal weight, particularly since there is no guarantee that a judge or a jury would give any credence to the board's opinion, or even that it would be allowed into evidence.

"If I'm a defendant, do I want to spend 400 grand to get an advisory opinion that I could maybe use as one piece of evidence in a jury trial?" Countryman said.

The AIA review system will have a cloud over it in the coming months as the Supreme Court considers whether it should even exist, but until the justices reach a decision, attorneys expect it to be business as usual at the PTAB, although patent owners will likely make reference to the case in their filings to preserve the constitutional argument.

"People will still file petitions even though this case is pending," Ellison said. "I don't think they would give up their right to challenge a patent in an IPR."

While the Supreme Court often reverses the Federal Circuit, some attorneys speculated that the justices may have been spurred to take this case more to resolve a key issue that would continue to simmer without their intervention, particularly after the Federal Circuit declined to address the issue en banc last month.

No matter why the high court took the case, its potentially dramatic effects will have the patent world riveted.

“Everyone will be waiting with bated breath to see how this decision comes out,” Ellison said.

The case is Oil States Energy Services LLC v. Greene’s Energy Group LLC, case number 16-712, before the U.S. Supreme Court.

--Editing by Philip Shea and Kelly Duncan.

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