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Supreme Court to Review Constitutionality of Inter Partes Review Process

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On June 12, the U.S. Supreme Court granted certiorari in *Oil States Energy Services v. Greene's Energy Group* to decide ''[w]hether *inter partes* review—an adversarial process used by the Patent and Trademark Office to analyze the validity of existing patents—violates the Constitution by extinguishing private property rights through a non-Article III forum without a jury.'' (The petition poses two additional questions, but the Court's grant of certiorari was limited to the question concerning the constitutionality of the inter partes review process.)

The U.S. Court of Appeals for the Federal Circuit decision below, a one-line summary affirmance of a judgment of the PTO's Patent Trial and Appeal Board, implicitly relies upon the appeals court's precedential decision in *MCM Portfolio v. Hewlett-Packard Co.*, 812 F.3d 1284, 117 U.S.P.Q.2d 1284 (Fed. Cir. 2015), which rejected the argument ''that inter partes review is unconstitutional because any action revoking a patent must be tried in an Article III court with the protections of the Seventh Amendment.'' *Id.* at 1288-93.

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The Supreme Court has denied cert petitions presenting precisely the same question on three prior occasions (including in the *MCM Portfolio* case), so it is not entirely clear why the Court decided to take this case. It is possible that—as Oil States argues in its petition—the Court has been interested in the issue all along but believes that the present case presents a better vehicle for review than the three earlier cases in which the Court denied review. *See* No. 16-712, Petition at 15-16 n.5 (U.S. Nov. 23, 2016).

It is also possible that the Court agreed to hear the case to settle the question definitively—that is, to remove any uncertainty concerning the constitutionality of IPR review. Notably, just last month, the Federal Circuit refused to consider the issue en banc, drawing heated dissents from Judges Kathleen M. O'Malley and Jimmie V. Reyna. The dissenting judges argued that the correctness of *MCM Portfolio* is, at the least, open to question, meaning that that en banc consideration of such an important issue was appropriate. *See Cascades Projection LLC v. Epson Am., Inc.*, No. 2017-1517, 2017 BL 157136, at *3-15, 122 U.S.P.Q.2d 1633 (Fed. Cir. May 11, 2017). The Supreme Court may feel that its intervention is necessary given the Federal Circuit's refusal to issue an en banc ruling on the issue.

Arguments on the Merits

As far as the merits go, there are colorable arguments on both sides. The crux of the debate is whether patent rights are ''public rights''—which can be adjudicated in a non-Article III forum without violating the Constitution—or ''core private rights''—which ''are only subject to adjudication in Article III courts.'' *Id.* at *3 (O'Malley, J., dissenting from the denial of rehearing en banc) (citing *Stern v. Marshall*, 564 U.S. 462, 484-86,

2011 BL 165774 (2011)). Lending support to the latter view is an 1898 Supreme Court decision holding that a patent, once issued, ''has passed beyond the control and jurisdiction of [the PTO], and is not subject to be revoked or canceled by the president, or any other officer of the government''; ''[t]he only authority competent to set a patent aside,'' the Court explained, ''is vested in the courts of the United States, and not in the department which issued the patent.'' *McCormick Harvesting Mach. Co. v. C. Aultman & Co.*, 169 U.S. 606, 608 (1898).

The Federal Circuit, however, has consistently declined to interpret *McCormick* as precluding agency invalidation of patents. *See, e.g.*, *MCM Portfolio*, 812 F.3d at 1288-93; *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 225 U.S.P.Q. 243 (Fed. Cir. 1985) (rejecting a constitutional challenge to reexamination proceedings before the PTO).

In *MCM Portfolio*, the Federal Circuit's most recent exploration of the issue, the court essentially limited *McCormick* to its facts and held that patent rights fall within the ''public rights exception'' to Article III because they '' 'derive[] from an extensive federal regulatory scheme,' and [are] created by federal law.'' 812 F.3d at 1290 (quoting *Stern*, 564 U.S. at 490); *see also id.* at 1291 (''The Board's involvement is thus a quintessential situation in which the agency is adjudicating issues under federal law, Congress having devised an expert and inexpensive method for dealing with a class of questions of fact which are particularly suited to examination and determination by an administrative agency specially assigned to that task.'') (alterations and quotation marks omitted). That conclusion is plausible in view of—but certainly not compelled by—the Supreme Court's public rights jurisprudence. *See generally Cascades Projection*, 2017 BL 157136, at *13 (Reyna, J., dissenting from the denial of rehearing en banc) (noting that ''the line between public and private rights . . . remains hazy, particularly in connection with patent rights''). Thus, whether patent rights are public rights amenable to agency adjudication is a question subject to reasonable debate (as is the vitality and scope of the Supreme Court's decision in *McCormick*).

Retroactive Application?

If the Supreme Court were to conclude that the inter partes review process violates Article III, it is uncertain whether the decision would operate retroactively to annul the results of previously-concluded IPR proceedings. Notably, when the Supreme Court held in *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*, 458 U.S. 50 (1982), that the Bankruptcy Act of 1978's grant of jurisdiction to bankruptcy courts violated Article III, the court declined to give its decision retroactive effect because of the potential for ''substantial injustice and hardship upon those litigants who relied upon the Act's vesting of jurisdiction in the bankruptcy courts.'' *Id.* at 87-88. It is possible that the Court might follow a similar path were it to find IPR proceedings unconstitutional.

It is also possible that resolution of the retroactivity question would require a second round of litigation over retroactivity. *See generally Am. Trucking Ass'ns, Inc. v. Smith*, 496 U.S. 167, 178-79 (1990) (discussing the factors courts consider in determining whether a decision establishing a new rule of constitutional law operates retroactively in a civil case).

Advice

In the short term, the Court's grant of cert in *Oil States* means that patent owners currently in IPR proceedings should argue to the PTAB that the agency cannot invalidate patents consistent with Article III, in order to preserve the argument in the event the Court finds the IPR procedure unconstitutional.

Additionally, patent owners currently appealing PTAB decisions to the Federal Circuit should consider raising the argument at the appellate stage, even if the argument was not made to the agency; there is Federal Circuit authority standing for the proposition that a party need not raise constitutional challenges to agency action before the agency in order to preserve the argument for appeal. *See Beard v. Gen. Servs. Admin.*, 801 F.2d 1318, 1321 (Fed. Cir. 1986).

Finally, potential patent challengers should be aware of the possibility that pending IPR proceedings may be disrupted in the event of a reversal in *Oil States*.

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