



## Supreme Court will determine the fate of 'patent death squads'

Roger Parloff

November 22, 2017

The fate of a major patent reform law, enacted in 2011 to improve patent quality, will hang in the balance on Monday, when the U.S. Supreme Court hears a constitutional challenge to one of its key provisions.

The law, the Leahy-Smith America Invents Act (AIA), created a fast, inexpensive, administrative mechanism whereby anyone can ask the U.S. Patent and Trademark Office to reassess the validity of a patent on certain grounds. Since the law came into effect, patent challengers have filed more than 7,700 petitions to trigger the procedure, known as *inter partes* review (IPR), according to Unified Patents, resulting in the cancellation of more than 20,500 patent claims—components of a patent that can serve as the basis for a lawsuit. Most of these claims were, in fact, being asserted in litigation at the time the IPR petitions were brought—often against multiple defendants. (Unified Patents is a company that tries to protect corporate clients from patent suits by, among things, bringing IPR proceedings.)

Apple alone has filed 267 IPR petitions since 2012—more than any other petitioner—according to a brief it submitted in the case, known as *Oil States Energy Services, Inc. v. Greene's Energy Group*. The company says it has thereby saved itself many millions of dollars, averting “expensive, unpredictable, and lengthy patent litigation.”

### 'Patent death squads'

Not surprisingly, IPR is loathed by many patent holders, who protest that it has undervalued and undermined their property rights. Former chief judge Randall Rader of the U.S. Court of Appeals for the Federal Circuit has famously termed the administrative panels that decide IPRs “patent death squads.”

IPR “has taken all hope away from inventors who hope to use the patent system to thrive and succeed,” asserts Richard Greenspoon, an attorney for Chicago's Flachsbart & Greenspoon, in an interview. Greenspoon wrote an amicus brief in the case for 32 small inventors' organizations.

“This is the most important patent case since the Alice decision,” asserts Stanford Law School professor Mark Lemley, referring to a landmark 2014 ruling that made it harder for software and business methods patents to survive court scrutiny. “The IPR procedure has proven to be a quick

and cheap way to resolve patent validity.” Lemley has co-authored an amicus brief in the current case on behalf of 72 intellectual property law professors who urge the court to uphold the legislation.

The case before the court began in late 2012, when Houston-based Oil States Energy Services Inc. sued a rival oilfields service company, Greene’s Energy Group, in federal district court in Tyler, Texas. It claimed that Greene’s was infringing its patent on a way of protecting wellheads during hydraulic fracking.

In December 2013, while that litigation was pending, Greene’s Energy petitioned the Patent Trial and Appeal Board (PTAB)—the PTO unit that hears IPRs—to open an IPR proceeding. Greene’s alleged that the original patent examiner who approved the patent in issue had not been made aware of an earlier invention that, had he known of it, would have led him to reject the patent application (due to obviousness or lack of novelty). In June 2014, PTAB agreed to review the claims.

### **The ‘judicial power’ and ‘public rights’**

Although most federal judges stay litigation when an IPR is filed, the Tyler judge declined to do so, and, instead, issued a pretrial ruling that upheld the validity of Oil States’ patent, notwithstanding Greene’s claims about the earlier invention. But the IPR continued, too, and a PTAB panel ruled for Greene’s in May 2015, cancelling key claims of Oil States’ patent.

Oil States appealed to the Federal Circuit, but the latter affirmed in May 2016. This past June, the Supreme Court agreed to take the case.

Before the High Court, Oil States argues that IPR is unconstitutional because it is conducted before a panel of executive-branch officials, rather than before a U.S. District Judge. The company claims that this violates Article III of the Constitution, which dictates that the federal “judicial power” should be exercised only by life-tenured judges appointed by the president. In addition, Oil States claims, IPR violates the Seventh Amendment, which guarantees a right to a jury trial in certain types of civil lawsuits.

In response, Greene’s Energy argues—with the support of the U.S. Solicitor General’s Office, which will also be defending the AIA before the court—that the IPR procedure was well within Congress’s constitutional power, bestowed in Article 1, Section 8, Clause 8, to create and oversee a patent system.

Furthermore, they contend, patents are “public rights”—rights integrally related to a federal regulatory scheme—which the Supreme Court has repeatedly allowed to be adjudicated by specialized administrative bodies rather than by Article III judges. In fact, hundreds of such specialized disputes are decided every day by a wide range of non-Article III decision-makers, including administrative law judges, immigration judges, and bankruptcy judges—none of whom are appointed by the president. Indeed, a ruling for Oil States in this case could have repercussions well outside the realm of patents, and could even be seen as striking a blow against “the Administrative State,” as some conservative critics have termed our contemporary governmental bureaucracy.

One curiosity of the case—and potential challenge for Oil States—is that while it has challenged the constitutionality of IPR, it has not challenged the similar and longstanding administrative procedures that it replaced. Congress first set up a procedure whereby a third party could petition the PTO to reexamine a patent in 1981. At that time, however, if the PTO chose to convene such a hearing, only the patent holder could participate in it—not the petitioning third-party. As a consequence, this was known as “*ex parte* review,” because only one party could participate.

In 1999, Congress tweaked the process to give the third-party petitioner a right to participate, albeit only to a very limited extent. The process was then renamed “*inter partes* reexamination,” because both parties could participate.

### **650,000 patent applications; 8,000 patent examiners**

With the AIA in 2011, Congress significantly revamped the process, giving third parties far greater rights of participation, turning the procedure into an adversarial adjudication, resembling litigation. The new procedure, renamed “*inter partes* review,” crossed the line into unconstitutionality, Oil States argues, because the PTAB was now exercising “judicial power.”

According to the House Report endorsing the AIA, the IPR process addressed “a growing sense that questionable patents [were] too easily obtained and ... too difficult to challenge.” Specifically, the thinking was that overburdened patent examiners, deluged by the flood of new patent applications, simply did not have the time to do adequate research into “prior art”—i.e., earlier inventions that might render an application invalid. (Last year, for instance, the PTO—which employs about 8,000 examiners—received about 650,000 patent applications, and issued 334,000 patents, according to an amicus brief submitted by Intel. The average patent was examined for less than 20 hours, according to the brief.)

With IPR, third parties—often accused infringers—were now permitted to do their own searches for prior art and then to bring what they found to the PTO’s attention. The results have been dramatic. About 68% of petitions for IPR lead to the institution of such proceedings, according to Unified Patents, and, once instituted, 86% of IPRs lead to cancellation of at least one claim. The IPR rulings can be appealed to the Federal Circuit—which is composed of Article III judges—but that court has affirmed 76% of IPR rulings in their entirety, while entirely reversing only 10%, according to the AIA Blog of Finnegan law firm.

### **Apple targeted in 40 patent suits in 2012**

Nearly 60 amicus briefs have been submitted in the case, about evenly split between the two sides. To a large extent they fall into the factions that are often seen in patent disputes. Groups of inventors, together with the pharmaceutical and biotech industries, including companies like Allergan and Celgene Corporation, are lining up with Oil States, fighting for the broadest possible enforcement rights for patents.

**Top 20 Patent Litigation Defendants by Number of New Litigations in 2012**

Defendant	Total	NPE	OpCo
Apple Inc.	40	40	0
Samsung Electronics Co. Ltd.	31	31	0
Amazon.com, Inc.	29	22	7
Lenovo Group Ltd.	29	22	7
Microsoft Corporation	27	27	0
HTC Corporation	25	18	7
Alphabet Inc.	24	23	1
Wal-Mart Stores Inc.	24	17	7
Dell Technologies Inc.	22	21	1
Sony Corporation	22	21	1
Verizon Communications Inc.	22	21	1
LG Electronics, Inc.	20	19	1
Allergan plc	19	1	18
Target Corporation	19	11	8
Blackberry Limited	16	15	1
Novartis AG	16	1	15
AT&T, Inc.	15	14	1
Facebook, Inc.	15	13	2
HP Inc.	15	15	0
Sears Holdings Corporation	15	9	6

Source: RPX Research. Methodology note: Companies are counted at the ultimate parent level under current corporate structure. Historical counts may vary.

Top 20 patent litigation defendants by number of new litigations in 2012.

They are joined, also, by groups supporting strong enforcement of private property rights, including the Cato Institute and Eagle Forum.

Among the key voices defending IPR, on the other hand, are those of trade groups and leading companies from the tech and internet industries, whose members are the defendants most frequently targeted in patent suits. Apple, which, as previously mentioned, submitted its own brief in the case, was named in 40 new patent suits brought by patent holding companies (pejoratively known as “patent trolls”) in 2012, making it the world’s No. 1 target that year, according to statistics kept by RPX Corp. (RPX is a public company devoted to minimizing corporate clients’ patent exposure.) Last year, however—perhaps due to the impact of IPR—Apple was named in only 16 new suits by patent holding companies, according to RPX.

Other leading tech amici defending IPR before the court include Dell (which says that it and its EMC unit have participated in 86 IPRs), Facebook (76 IPRs), Google, and Intel. But in an apparent reflection of the degree to which software and the internet have permeated the economy—rendering those companies, too, targets of patent holding companies—this side also includes representatives of the financial services industry (banks, insurers, and securities dealers); the retail industry; and the auto industry (including Ford, General Motors, Toyota, and Volkswagen). In addition, a number of companies that have found themselves on both sides of IPR hearings, including General Electric Company and Gilead Sciences, have voiced support for the process, citing its speed and cost efficiency.

Though the case is filled with complexity, and the amici pick through hundreds of years of Anglo-American legal history to marshal support for their opposing conclusions, Oil States may have a hard time overcoming a gut-level argument for upholding IPR.

“The PTO grants patents,” says Andy Pincus of the law firm of Mayer Brown. “The idea that it can’t redetermine its own decisions, as a matter of common sense, just seems bizarre. How could it possibly be that Congress couldn’t create this system?” Pincus co-authored a brief defending IPR on behalf of BSA/The Software Alliance, a trade alliance of software and hardware tech companies.

Though the court’s vote on the case is likely to be extremely close, a ruling striking down IPR would cause so much tumult and legal uncertainty—both within the patent system and beyond—that affirmance has to be counted as the more likely outcome.

And the more sensible.