

INTELLECTUAL PROPERTY

JUNE 2017

IN THIS ISSUE

Joseph Kovarik and Tyler Boschert, attorneys with Sheridan Ross, P.C., examine the Federal Circuit's recent decision to deny en banc hearing in a case that lies at the intersection of patent law and constitutional law. The court's refusal to hear the case leaves practitioners without an answer to a fundamental question of patent law—what sort of right does a patent confer? And the resulting ambiguity could lead to the invalidation of thousands of patents by tribunals whose exercise of a traditionally judicial function may be unconstitutional. The recent grant of certiorari by the Supreme Court in Oil States Energy Services, LLC v. Greene's Energy Group, LLC., however, promises to provide a resolution of this most fundamental and important issue.

What Is a Patent? The Constitutionality of Claim Invalidation in Inter Partes Review and ITC Proceedings



ABOUT THE AUTHORS

Joseph Kovarik is a shareholder at Sheridan Ross P.C., practicing in intellectual property law, with an emphasis in patent prosecution, patent litigation, mediation of patent disputes and licensing of intellectual property rights. Over 25 years, Mr. Kovarik has prosecuted hundreds of patents to issuance, structured numerous licensing transactions, and participated in arbitrations, mediations, litigations and appeals. He has developed a varied practice directed towards the appreciation of intellectual property values and the pursuit of opportunities to advance the interests of his clients. He can be reached at jkovarik@sheridanross.com.



Tyler Boschert is an associate attorney at the Colorado-based intellectual property firm Sheridan Ross P.C. He practices mainly in the area of patent prosecution, with an emphasis in the chemical and biochemical arts, but also has experience assisting clients of all sizes with patent litigation issues, trademark and copyright matters, and technology contracting and licensing. While in law school, he served as an editor for the *Journal on Telecommunications and High Technology Law* (now the *Colorado Technology Law Journal*). He can be reached at tboschert@sheridanross.com.

Learn more about the Committee at www.iadclaw.org. To contribute a newsletter article, contact:



Neville H. Boschert
Vice Chair of Newsletter
Jones Walker LLP
NBoschert@joneswalker.com

The International Association of Defense Counsel serves a distinguished, invitation-only membership of corporate and insurance defense lawyers. The IADC dedicates itself to enhancing the development of skills, professionalism and camaraderie in the practice of law in order to serve and benefit the civil justice system, the legal profession, society and our members.

What is a United States patent? Is it a creation of federal statute, rendering it a “public right”? Or is it a “personal right” created by the Constitution, which can be extinguished only by an Article III court? Nearly 230 years after the first US patent was issued, the answers to these fundamental questions are murkier than ever. Federal courts, namely the Court of Appeals for the Federal Circuit, have muddied the waters for practitioners and inventors alike, and the outcome of a pending Supreme Court case addressing these questions could render unconstitutional one of the most sweeping and significant changes to American patent law in the past six decades—the *inter partes* review (IPR) procedure established by the America Invents Act (AIA). Until these questions are answered, the constitutionality of patent proceedings before the International Trade Commission (ITC) likewise hangs in the balance. But despite the crucial importance of providing clarity and guidance to patent applicants and litigants on these issues, the Court of Appeals for the Federal Circuit recently decided to deny *en banc* hearing in *Cascades Projection LLC v. Epson America, Inc.*

If, as the popular metaphor would have it, the role of a federal court (and especially a federal appellate court) is to call balls and strikes, the Federal Circuit earned itself a bus ticket back

to the minors. The failure of the Federal Circuit—a court, it should be noted, that was created for the specific purpose of providing consistent guidance on patent law issues—to agree on a matter so basic as the nature of the right conferred by a patent, is as embarrassing as it is shocking. Unable to provide direction on such a core principle, the Supreme Court is once again forced to decide an issue on which the fractured Federal Circuit has either punted or succumbed to internecine bickering. In the meantime, thousands of issued patents—that is, thousands of government-granted property rights, some worth many millions of dollars—will be deemed invalid by tribunals that might be constitutionally precluded from making such a judgment in the first place.

To set the stage for the Federal Circuit’s inexplicable decision in *Cascades Projection*, it is important to note that for nearly 120 years, it has been well-settled Supreme Court precedent 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.”¹ Well-settled, that is, to everyone except the Federal Circuit, which in its history of less than 40 years has held not once² but twice³, for conflicting reasons, that the United

¹ *McCormick Harvesting Machine Co. v. Aultman*, 169 U.S. 606, 609 (1898) (citation omitted).

² *Patlex Corp. v. Mossinghoff*, 758 F.2d 594, 605 (Fed. Cir. 1985) (holding that the invalidation of patent claims in reexamination proceedings before the USPTO is constitutional because the purpose of reexamination proceedings is to “facilitate[e] the correction of

governmental mistakes” in granting “[a] defectively examined and therefore erroneously granted patent”).

³ *MCM Portfolio LLC v. Hewlett-Packard Co.*, 812 F.3d 1284, 1292 (Fed. Cir. 2015) (holding that there is “no basis to distinguish the reexamination proceeding in *Patlex* from [IPR proceedings]” because “Congress viewed IPR as amending *ex parte* and *inter partes* reexamination”).

States Patent and Trademark Office (USPTO or PTO), an Article II administrative agency of the Department of Commerce, has the power to revoke, cancel, or annul any patent it issues.

Cascades Projection LLC (“Cascades”) appealed to the Federal Circuit from the USPTO’s invalidation of its patent claims in an IPR initiated by Epson America, Inc. (“Epson”) and Sony Corp. (“Sony”). Cascades argued that Article III of the Constitution prohibits the PTO from invalidating claims. The Federal Circuit should properly have seized the opportunity to clarify the legal rationale for its prior decisions. Instead, the court elected not to have all of its judges weigh in on a matter of vital importance to American patent law. Its perfunctory *per curiam* opinion offers nothing in the way of explanation. We must therefore attempt to glean what little insight we can from the four other opinions—concurrences by Judges Newman and Dyk and dissents by Judges O’Malley and Reyna. Judge Newman, perhaps sensibly, expressed a desire for a three-member panel to first weigh in before having the entire court hear the issue; Judge Dyk, perhaps less sensibly, invoked the Federal Circuit’s precedents in *Patlex* and *MCM* and noted that there is “no need to restate” the Federal Circuit’s view that a patent is a so-called “public right” and thus susceptible to review by an administrative agency, such as the USPTO or the ITC. Judge O’Malley recognized that the issue is “sufficiently debatable and exceptionally important” and that *MCM* may be at odds with long-standing Supreme Court precedent, but declined to elaborate much further.

Luckily for those in the patent bar, Judge Reyna’s dissent is detailed and erudite, and appears to be a veiled plea for the Supreme Court to grant *certiorari*. At some length, Judge Reyna described how U.S. patents have always been considered private property rights, protected by the Fifth Amendment against uncompensated government takings and by the Fourteenth Amendment against violations of due process. He also takes great care to note that the necessity of patents on inventions was hotly debated by the Founders, and that the compromise they eventually reached empowered Congress “to create for a limited time a *personal* right of exclusivity” (emphasis added). Significantly, Judge Reyna also pointed out that patent rights are fully vested from the moment a patent issues, such that a subsequent amendment to, or even repeal of, the patent laws does not affect an issued patent.

Judge Reyna’s opinion then goes on to criticize the incongruity between the *Patlex* and *MCM* holdings, if not the holdings themselves. In *Patlex*, the court wrote that the Supreme Court’s holding in *McCormick* “[was] establish[ed] on *constitutional* grounds” and “affirmed that an issued patent could not be set aside other than by an Article III court;” in *MCM*, the court wrote that the Supreme Court reversed the USPTO’s invalidation of the patent in *McCormick* because it was “[w]ithout *statutory* authorization” and that *McCormick* “did not address Article III and certainly did not forbid Congress from granting the PTO the authority to correct or cancel an issued patent” (emphases added).

Judge Reyna considers, as your authors do, *Patlex* and *MCM* to be “incompatible,” and that “[a]t minimum, if [the Federal Circuit] determine[s] in two separate actions that a Supreme Court holding does not apply, [the Federal Circuit’s] rationale must be uniform.”

Judge Reyna opined that any one of the three established reasons for *en banc* review—maintaining uniformity, deciding a question of exceptional importance, and the need to overrule a prior holding—are all present in the instant case. He stressed that the Federal Circuit has “no discretion to distinguish Supreme Court precedent solely to avoid its holdings.”

Judge Reyna recognized that Congress may constitutionally vest traditionally judicial functions in a non-Article III officer when Congress creates a substantive federal right. But he noted that “[n]o one sues the government to invalidate a third party’s patent, for the patent is *property of the patent owner*” (emphasis added). While Judge Reyna believed that the patent right derives from the Copyright Clause of the Constitution, others have contended that a “patent is a child, born and nurtured, of a federal regulatory scheme” and thus a public, rather than a personal, right. Judge Reyna stressed that it is essential to “clarify the line between public and private rights” to secure the separation of powers, and that that line is (and long has been, in view of the relative inscrutability of Supreme Court precedent on this point) “hazy, in particular in connection with patent rights.”

Given all of the above, Judge Reyna had (well-deserved) stern words for his colleagues in his conclusion. He unequivocally states that the Federal Circuit has flatly “ignore[d] the plain language of binding Supreme Court precedent,” and that the refusal to grant *en banc* review “ignores whether to continue to allow a 2-year-old panel decision [i.e. *MCM*] to supplant a 120-year-old Supreme Court holding [i.e. *McCormick*], and . . . overlooks an irreconcilable divide in [the Federal Circuit’s] panel decisions. Judge Reyna stressed that “[t]he relationship between patent statutes and constitutional provisions is an exceptionally important issue [the Federal Circuit], in particular, should address.”

Just before this article went to press, a new wrinkle was added. While Judge Reyna’s dissent in *Cascades Projection* makes it clear enough that the constitutionality of IPR and ITC proceedings requires final resolution, it appears the Supreme Court has already heard the clarion call by granting *certiorari* in *Oil States Energy Services, LLC v. Greene’s Energy Group, LLC*.

Oil States presents three issues, one of which is the exact question at the heart of *Cascades Projection*, namely whether IPR proceedings are constitutional. *Oil States*, however, was on a slightly different footing before the Federal Circuit than *Cascades Projection*; the patent owner did not raise a constitutional challenge during the IPR proceeding before the PTO (that may not have made a difference—the PTO later correctly ruled in *Cascades Projection* that it has no authority to decide constitutional questions), and *MCM* was

decided while *Oil States* was pending before the Federal Circuit. As a result, the Federal Circuit summarily affirmed the PTO's *Oil States* ruling under Federal Circuit Rule 36.

The Supreme Court's grant of *certiorari* in *Oil States* makes the Federal Circuit's seeming inattention to *Cascades Projection* even more curious. Even Judge Reyna seems to have misjudged the importance of *Oil States*, devoting only a few brief sentences to it in a footnote in his dissent. *Cascades Projection* is thus perhaps best understood as the most recent in a serious litany of errors by the Federal Circuit stretching back at least two years.

First, in *MCM*, the court issued a ruling inconsistent with not only the Supreme Court's precedent (*McCormick*) but its own (*Patlex*); then, in *Oil States*, it failed to note the importance of the question presented and summarily affirmed based on its own flawed *MCM* decision. And finally, in *Cascades Projection*, it not only declined to reconcile the existing mess but seemed to deny that there was a mess that needed reconciling at all.

The question has now, seemingly inevitably, reached the Supreme Court in the guise of *Oil States*, and the nine Justices now face a difficult dilemma. On one hand, the holding of *McCormick*, which is old but good law, is unequivocal that patents are private property rights. On the other hand, a strict adherence to *McCormick* could conceivably compel the Supreme Court to sweep away the power of the USPTO and ITC to invalidate patents,

which would be a potentially devastating sea change in the way patent law is practiced in this country, blow a massive hole in the carefully negotiated AIA, and perhaps allow many more bad patents that *should* be invalidated to remain enforceable.

The Justices are now called upon to make a crucial call in a tied game in the bottom of the ninth. One imagines that they will—they must—see how desperately they are needed, and the immense importance their ruling will have on the future of the AIA and on American patent law as a whole. With the Supreme Court's recent granting of *certiorari* in *Oil States*, the Federal Circuit's failure in *Cascades Projection* will at least not prolong what would otherwise have been a long and uncomfortable journey to the resolution of this most fundamental of patent issues.

Past Committee Newsletters

Visit the Committee's newsletter archive online at www.iadclaw.org to read other articles published by the Committee. Prior articles include:

JANUARY 2017

The Patent Ineligibility Tsunami: The Impact of the Mayo and Alice Decisions on the Future of Innovation
Joseph Kovarik and Ben Roxborough

NOVEMBER 2016

Defend Trade Secrets Act of 2016
Robert Smith

JUNE 2015

Proof of Patent Damages: A Korean Approach
Kurt Gerstner